

ABC and SBS Efficiency Study

April 2014

Draft Report

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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 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.

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.

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'. 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 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

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

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.

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 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.

Efficiencies Overview

The table below itemises the implementation costs, efficiencies and capital savings for each of the potential efficiencies suggested in this report. **The efficiencies represented in this table should be read in the context of the full report which provides caveats and assumptions which are implicit in the savings in this table. Some of the efficiencies are mutually exclusive and several vary in terms of their achievability, risk and implementation costs. A number of efficiencies would require further investigation. The study specifically cautions against an approach of totalling all the efficiencies to gain an overall figure which is then used to reassess the funding base of the ABC and SBS.**

A more disaggregated table of efficiencies is provided at Appendix G.

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

1 Introduction

On 31 January 2014 the Hon Malcolm Turnbull MP, Minister for Communications (the Minister), requested the Department conduct a study (the study) of the efficiency of the operations of the ABC and the SBS. Mr Peter Lewis, formerly Chief Financial Officer of Seven West Media Limited, assisted the Department with the study as a specialist adviser. The Department was asked to report to the Minister in April 2014.

At a high level, the broadcasters provide a wide range of services from government funding. For example, with \$1.1 billion per annum (p.a.), excluding transmission, the ABC operates multiple television, radio, online and mobile services which are detailed in the 'ABC and SBS at a glance' table in section 2.2 below, as well as:

- broadcasting approximately 180,560 hours across television and radio annually
- commissioning more than 2,550 hours of content and broadcasting more than 890 hours of first-release Australian TV prime time content on ABC1
- producing the iview catch up service with an average of 18 million plays per month
- delivering ABC News online accessed by 7.6 million visitors
- broadcasting the Australia Network into 46 nations in Asia, the Pacific and the Indian subcontinent
- operating 52 retail outlets and the ABC Shop Online
- supporting digital television transmission at over 400 towers and 33 television and radio services on the Viewer Access Satellite Television (VAST)

Similarly, the SBS with \$286.9 million p.a., excluding transmission, delivers:

- approximately 2,840 hours of subtitled programs across SBS ONE and SBS 2
- approximately 3,769 hours in a language other than English (LOTE) on SBS ONE
- over 80 hours of commissioned content
- an average of 12.5 million viewers each month on SBS ONE
- digital radio to six metro regions
- 273 digital terrestrial transmitters and 190 retransmission services
- seven VAST direct-to-home satellite services
- advertising revenue of approximately \$50 million p.a.

This can be compared with the annual operating budget of TEN Network Holdings of \$637.5 million in 2013² which has three TV channels and five metro markets (Sydney, Melbourne, Adelaide,

²Ten Network Holdings *Annual Report 2013*, p. 38.

Brisbane, and Perth) or Southern Cross Austereo which provides 104 TV channels and 78 commercial radio licences for around \$431.6 million in 2013.³

In recent years, including in the context of triennial funding reviews, debates have tended to focus on the 'adequacy' of national broadcaster funding without the necessary detailed data to determine how the broadcasters allocate funding, the flexibility of resources between different categories of expenditure and different priorities, and/or the scope to do things better to achieve the same output. The result is that assessments of 'adequacy' become ill informed discussions about whether the broadcaster should receive additional funding for some new activity or whether the broadcasters have enough funding for capital.

The objectives of this study are to clarify the costs of providing national broadcasting services, provide options for more efficient delivery of services and identify risks and impediments to change. The study also considered the budgeting and decision-making structures of the broadcasters and mechanisms to improve transparency of their operations.

The study is focused on improving the value of how a service is provided and not about the service itself. The study considers other ways by which those services can be provided and Charter obligations can be met, which may involve moving away from the historical or traditional way the national broadcasters have provided their services.

1.1 Parameters of the study

In undertaking the study, the Department had regard to:

- the ABC and SBS Charters, legislated obligations, editorial and operational independence from government
- ratings, audience reach and other relevant audience measures for ABC and SBS programming
- changing audience demand, particularly increasing use of catch up and online services
- the role of ABC and SBS in the provision of emergency services information
- the geographic spread of services and infrastructure, their importance to communities compared to the costs of maintaining services
- the relative importance/performance of the ABC and SBS compared to other broadcasting services in local markets.

³ Southern Cross Austereo, *Annual Report 2013*, p 37.

The study was not limited to a consideration of these activities separately, but also considered outputs on a cross-platform basis, for example, delivery of news and current affairs across TV, radio and digital, where useful.

The study has focused primarily on cost of inputs that is the 'back of office', day-to-day, operational and financial operations, structures and processes applied to delivering ABC and SBS programs, products and services. However, a simple focus on, for example, the cost of routine administrative activities such as human resources administration or information technology is unlikely of itself to deliver substantial changes to the cost basis of the national broadcasters or implement long term structural change which would embed these efficiencies. Hence the review has also looked at a range of more complex and potentially controversial issues such as whether (or the extent to which) services should be on different transmission platforms, whether the organisations should share accommodation at least at some level, and whether the organisations can purchase the *supply* of services which are intrinsic to the production of content (for example, studio space or studio equipment) on the market rather than owning or undertaking these themselves.

Thus a broad definition of efficiency has been adopted, encompassing traditional definitions of efficiency (the same output with less input, or more output with the same input) but also options which involve increased revenue generation, or which could involve re-allocation of resources between priorities to ensure that the existing cost base is able to respond to the changing economic, market or technological landscape without escalating demands on public funding. For example, variabilising their cost bases by using a higher proportion of resources to buy services rather than depreciable assets in order to ensure an ability to adjust to changing economic environments, could achieve fiscal efficiency without reducing specific costs. A reduction in the duplication of service delivery is not considered a reduction in services when a service is provided on multiple platforms.

Both the ABC and SBS are complex business operations with different internal structures, management processes and reporting mechanisms. This made it challenging to obtain detailed breakdown of resources and activities in the form required for the study to enable comparison of activities between the two organisations. This analysis of information has itself been a valuable activity in terms of greater transparency of the organisations. However, the study has not conducted a detailed and comprehensive 'audit' of activities within the organisations and has not been able to undertake a detailed cost analysis of every aspect of the national broadcasters or form a definitive view on every area of activity. As a result, the study has focussed on more tactical elements rather than a deeper structural review.

Many efficiencies fall into two broad categories: those that could be relatively simply implemented, resulting in readily identifiable changes to costs, and those which are longer term, potentially more costly to implement, and which are likely to require considerable ongoing work, but whose long-term benefits make them worthy of consideration by the management of the national broadcasters. It should be recognised that some efficiencies identified raise complex policy issues for Government or have significant long term structural, cultural, financial and industrial relations issues for the broadcasters. However, the study took the view that while implementation challenges must be acknowledged, this should not prevent the efficiencies being raised for consideration.

The study has not commenced from a perception of efficiency inherent in either the ABC or SBS. The study is aware of operational differences between the two national broadcasters which are not necessarily based on economies of scale. For example, the study has not assumed that SBS must be a more efficient organisation than the ABC simply because it is the smaller of the two. On some measures, SBS is not more efficient than the ABC, which is demonstrated by Section 2.5 on audience. In addition, to achieve some of the efficiencies discussed in this study, the ABC and SBS will need to work together and manage the risk that combined activities will tend towards using the larger broadcaster's operational practices regardless of efficiency.

The following areas were considered outside the scope of this study:

- the national broadcasters' primary transmission costs, which are subject to a separate review by the Department
- any changes to the ABC and SBS Charters
- editorial policies
- advertising on the ABC
- an assessment or commentary on the quality of programs or products delivered by the broadcasters.

The Terms of Reference for the study are at **Appendix A**.

In undertaking this study, the Department notes that Government has the responsibility to ensure the ABC and SBS use public funds as efficiently as possible. At present there are limits on the transparency to the public, Parliament and the Government of the itemisation of costs of delivering the ABC and SBS Charter responsibilities and whether these could be more efficiently delivered by the national broadcasters.

2 The ABC and SBS Today

2.1 Overview

This section provides a snapshot of the national broadcasters, including the policy objectives government is seeking to achieve by investing in national broadcasting, the range of services provided by the ABC and SBS, the level of funding they receive, their current costs base in delivering these services and the audiences that watch, listen and download these services and how these audience demands may be changing over time.

The primary policy objectives of providing national broadcasting services, as reflected in the ABC and SBS Charters⁴, are:

- universality: enabling all Australians to access broadcasting services, regardless of geography or capacity to pay, to allow them to participate in society and institutions
- localism: allowing people with similar interests to communicate and participate in local communities
- Australian content: strengthening Australian identity through the provision of programming that reflects Australia's unique character and characteristics, and promotes diversity and understanding of other cultures
- comprehensive and diverse programming: ensuring Australian audiences have access to a comprehensive range of content that is relevant to, and representative of, the range of groups within society
- diversity of news and information: ensuring an informed public debate about key issues affecting Australian society and the nation, free from commercial or other interests
- education: enhancing the intellectual and creative capacity of Australian society and supporting the development of Australia's human capital
- innovation and quality: providing informative and thought provoking content that enriches society, and encourages creative endeavour and the development of new talent

2.2 The ABC and SBS at a glance

ABC and SBS are comprehensive national broadcasters. No broadcasters in the commercial market provide a similar range of services or aim to reach such a broad and diverse audience.

⁴ *Australian Broadcasting Corporation Act 1983*, Section 6 Charter of the Corporation; *Special Broadcasting Services Act 1991*, Section 6 Charter of the SBS.

ABC and SBS at a glance

The table below provides funding, services and production hours for the ABC and SBS.

	ABC	SBS	Source
Cost of services	\$1,215.7m	\$377.5m	2013-14 Portfolio Budget Statements
Own source revenue	\$175.5m	\$103.9m	2013-14 Portfolio Budget Statements
Government funding – non transmission	\$1053.9m	\$273.8m	2013-14 Portfolio Budget Statements
Government funding – transmission	\$190.7m	\$77.9m	2013-14 Portfolio Budget Statements
Total Assets	\$1302.1m	\$234.6m	2013-14 Portfolio Budget Statements
Total Liabilities	\$272.9m	\$47.4m	2013-14 Portfolio Budget Statements
Staff (FTE)	4,580.40	1,084.30	ABC/SBS
FTA TV channels	4	4	2012-13 Annual Report
Subscription TV channels	0	2	2012-13 Annual Report
Radio networks (broadcast)	6	1	2012-13 Annual Report
Radio services on DTV platform	2	3	2012-13 Annual Report/Websites
Radio services DAB	15	7	2012-13 Annual Report/Websites
Radio services online	20	8	2012-13 Annual Report/Websites
Local radio stations	60	0	2012-13 Annual Report
Broadcast languages	8	74	2012-13 Annual Report
International bureaus	12	0	2012-13 Annual Report
Retail shops	52	0	2012-13 Annual Report

	ABC	SBS	Source
Internally produced TV production hours	██████	██████	ABC/SBS
Internally produced sport production hours	██████	██████	ABC/SBS
Externally commissioned TV production hours	██████	██████	ABC/SBS
News and Current Affairs production hours	██████	██████████	ABC/SBS
Australian content (6pm - midnight) 1st run %	63% (ABC1)	38.5%	2012-13 Annual Report
Online users (visitors per month for most frequented page):	News online - 7.6m	Homepage - 2.2m	2012-13 Annual Report
Audience, Weekly Reach (capital cities and regional)	TV - 13.9m Radio - 4.5m	TV – 7.3m WM - 759k Studio - 750k Radio - n/a	2012-13 Annual Report
Audience, Market Share (capital cities and regional)	TV - 17.8% (metro) & 19.5% regional. Radio - 24.2%	TV - 6% (metro) Radio - n/a	2012-13 Annual Report

2.3 Current funding of the national broadcasters

As noted in the table above, the ABC and SBS, receive a total of approximately \$1.4 billion in funding a year, including transmission, from the Australian Government. The broadcasters use this funding (and any revenue raised) to fulfil their responsibilities under their Charters to deliver a diverse range of TV, radio and online services to audiences of all ages and backgrounds across Australia. Around 20% of this funding is used for the purchase of transmission and distribution services, most of which is out of scope for this study.

The table below provides further detail on the funding sources for the ABC and SBS, including their future funding profile over FYs 2014-15 to FY 2017-18.

Future funding profile for the ABC and SBS FY2014-15 to FY 2017-18

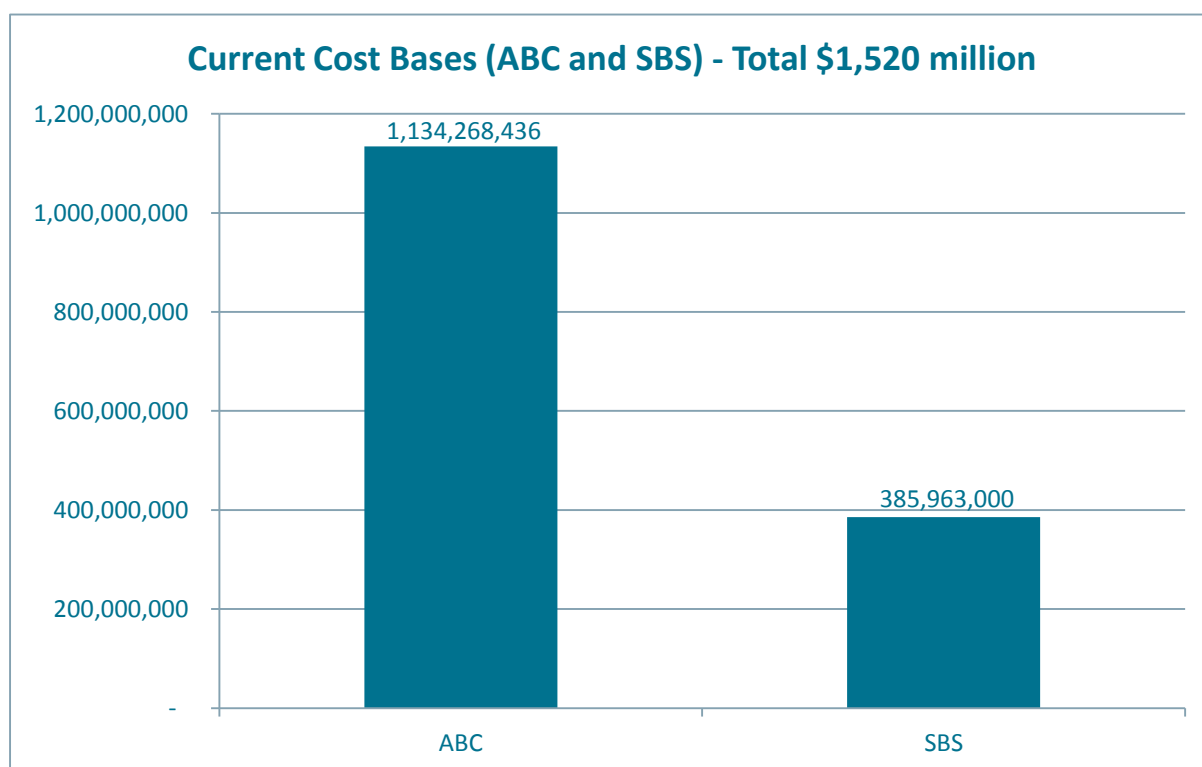
ABC	Future Funding (including transmission, distribution, loans, Government grants and own source revenue)	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	Total \$m
Outcome 1	TV, Radio and Online	877.5	897.0	877.2	893.4	3,545.2
Outcome 2	Analog Transmission	76.1	77.4	78.8	80.4	312.6
	Analog Distribution	-	-	-	-	-
Outcome 3	Digital TV Transmission	80.2	81.9	84.1	86.1	332.3
	Digital TV Distribution	34.6	35.5	36.4	37.3	143.7
Outcome 4	Digital Radio Transmission	2.9	2.9	2.9	2.9	11.5
	Digital Radio Distribution	0.9	0.9	0.9	0.9	3.5
	<i>Total Transmission</i>	<i>159.1</i>	<i>162.2</i>	<i>165.8</i>	<i>169.4</i>	<i>656.5</i>
	<i>Total Distribution</i>	<i>35.5</i>	<i>36.3</i>	<i>37.3</i>	<i>38.2</i>	<i>147.2</i>
	<i>Total Transmission and Distribution</i>	<i>194.6</i>	<i>198.5</i>	<i>203.0</i>	<i>207.6</i>	<i>803.7</i>
	Loans	50.0	20.0	-	-	70.0
	Total Government funding provided	1,122.2	1,115.4	1,080.3	1,101.2	4,419.1
	Other Government Grant Funding	21.2	21.6	22.0	22.5	87.3
	Own source revenue	174.9	174.7	175.1	176.0	700.8

SBS	Future Funding (including transmission, distribution, loans, Government grants and own source revenue)	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	Total \$m
Program 1.1	Television	162.6	165.3	163.4	163.6	654.9
Program 1.2	Radio	36.2	36.7	36.0	36.7	145.5
	<i>Total Television and Radio</i>	<i>198.8</i>	<i>201.9</i>	<i>199.4</i>	<i>200.3</i>	<i>800.4</i>
Program 1.3	Analog Transmission	2.8	2.9	3.0	3.0	11.7
	Analog Distribution					-
Program 1.4	Digital Television Transmission	69.5	68.0	67.3	68.4	273.2
	Digital Television Distribution	13.7	13.9	14.0	14.1	55.6
Program 1.5	Digital Radio Transmission	1.7	1.7	1.8	1.8	7.1
	Digital Radio Distribution	0.4	0.4	0.4	0.4	1.6
	<i>Total Transmission</i>	<i>74.1</i>	<i>72.7</i>	<i>72.0</i>	<i>73.2</i>	<i>292.0</i>
	<i>Total Distribution</i>	<i>14.1</i>	<i>14.3</i>	<i>14.4</i>	<i>14.5</i>	<i>57.2</i>
	<i>Total Transmission and Distribution</i>	<i>88.1</i>	<i>86.9</i>	<i>86.4</i>	<i>87.7</i>	<i>349.2</i>

ABC/SBS		2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	Total \$m
	Total Government funding provided	286.9	288.9	285.8	288.0	1,149.6
	Own Source Revenue	105.7	100.4	102.2	103.0	411.4

2.4 Current cost base

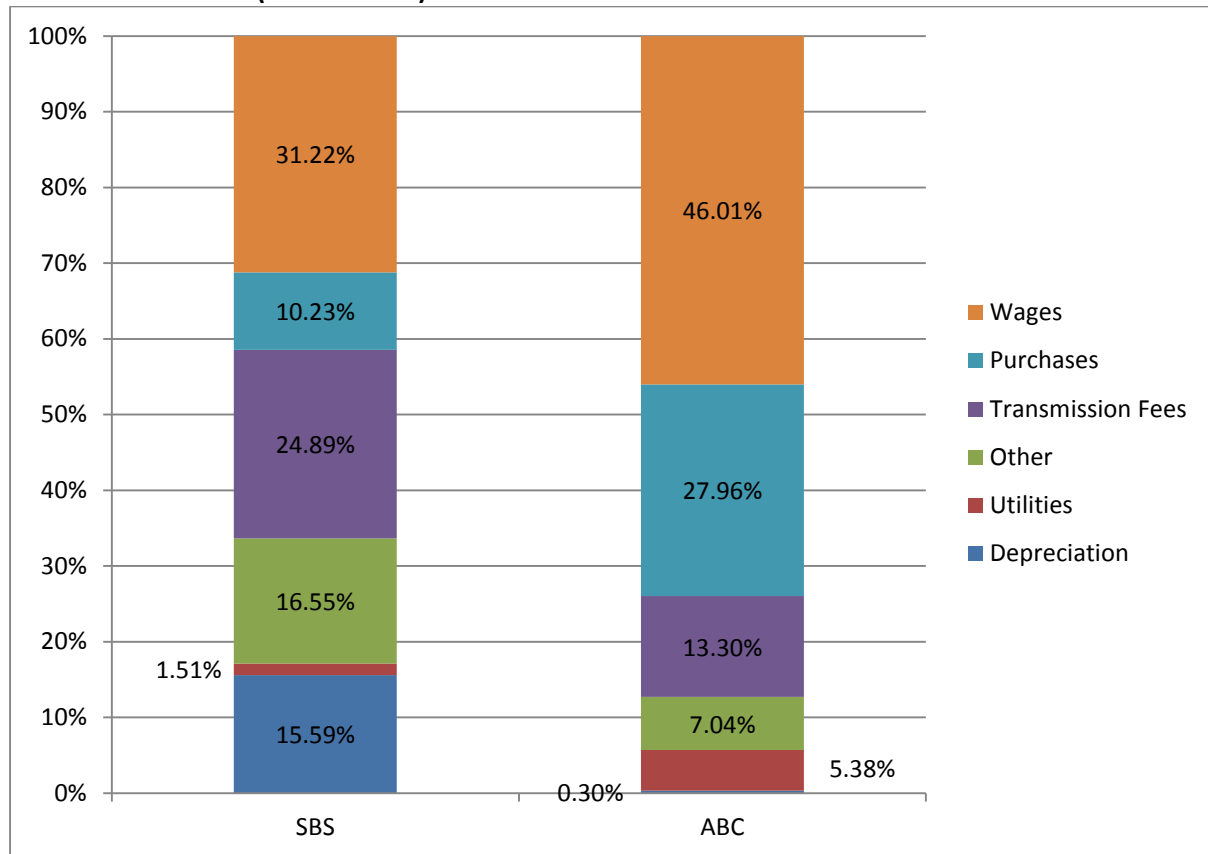
The Terms of Reference stipulate that the study should identify the current cost of each output and provide a breakdown of these costs by States and regions, service level and program genre. The total budget for ABC and SBS for the year ending 30 June 2014 is presented in the graph below.



To provide some comparison with the free to air broadcasting industry in general, the study consulted the December 2013 IBIS World Industry Report J5621 Free-to-Air Television Broadcasting in Australia in order to present a comparative picture of percentage of national broadcaster costs

compared to the industry average in the IBIS world report. The graph below presents the study's breakdown of costs for each broadcaster, that is, using the figures in this report.

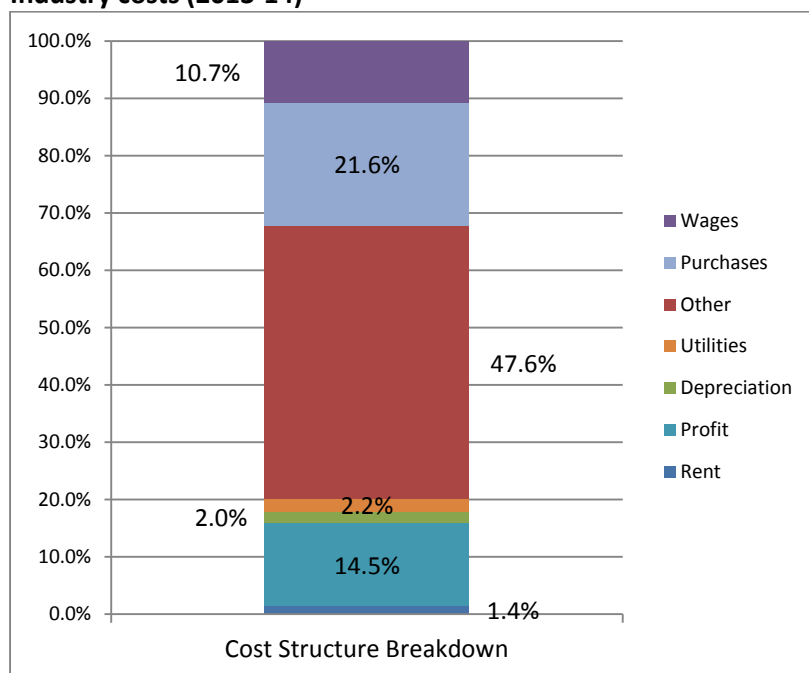
Breakdown of costs (ABC and SBS)



Note: The category of 'Other' includes such costs as travel, membership fees and subscriptions, meal allowances and fleet charges. 'Purchases' includes consultant and contractor fees, materials, minor assets and royalties and rights. 'Utilities' includes postage, hire/lease of plant and equipment, telephone, gas, storage, printing and electricity.

Average industry costs for free-to-air broadcasters as calculated by IBIS world are presented in the graph below.

Industry costs (2013-14)



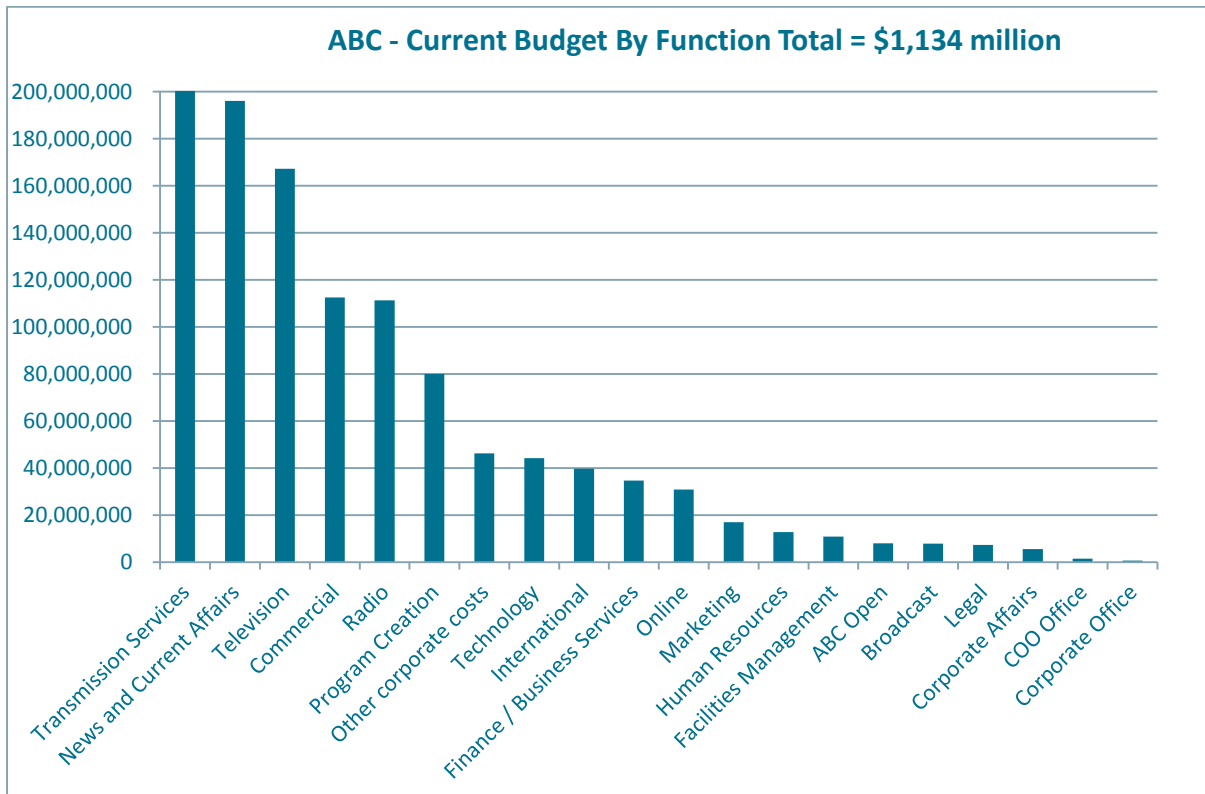
The IBIS world report provided some examples of items included in each category but did not provide a detailed list of costs. As a result, a direct like-for-like analysis between the study’s breakdown of costs and the average industry cost calculated by IBIS world was not possible.

At a high level, study data appears to indicate that the wages category at both the ABC and SBS is significantly higher than the industry average in the IBIS world report, as a proportion of total budget. The reasons for this are not fully understood but may in part reflect higher on-costs such as superannuation in the national broadcasters, as well as a transfer of staff costs in the commercial sector to third parties through outsourcing. Additionally, in comparison with the industry, depreciation costs at the ABC and SBS appear significantly different to the industry average with the ABC’s costs being significantly higher than average and SBS’s costs significantly lower. This may be due to the different methods that the ABC and SBS employ to amortise purchased and produced programs.

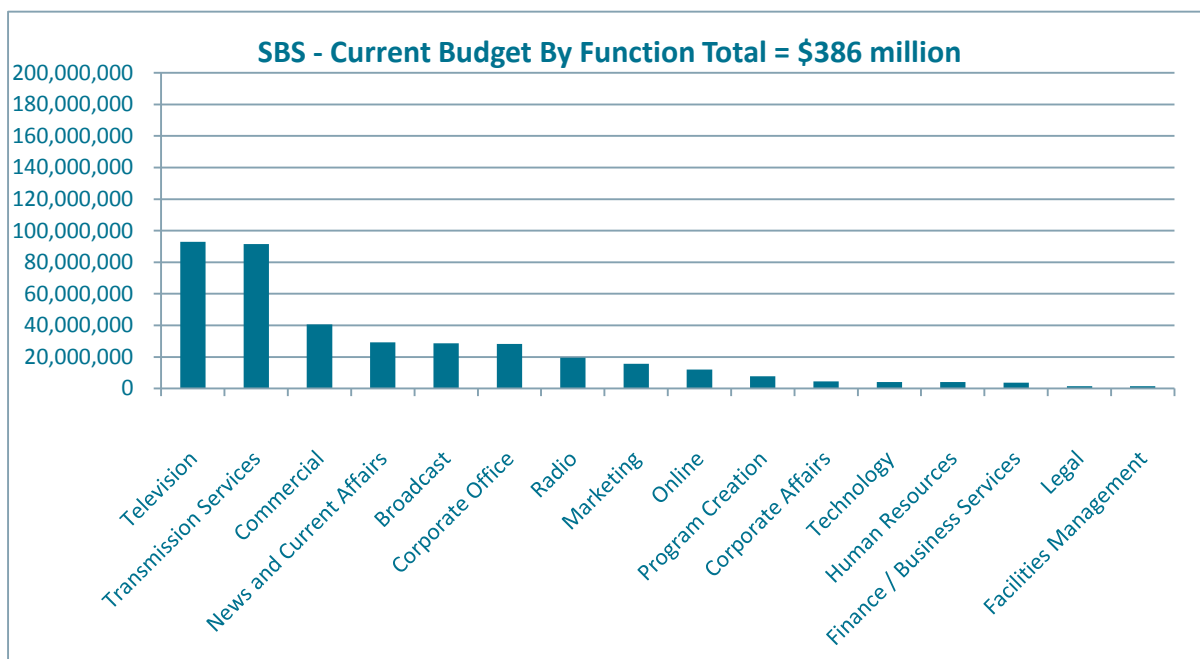
Finally, the study notes that a significant proportion of both broadcasters’ budgets is attributable to transmission fees. However, transmission fees are funded separately to operational funding.

The study performed a reconciliation exercise to split divisions at the ABC and SBS by function. As a result of this exercise, the study team was able to reallocate the budget to each function based on cost centre information provided by each broadcaster and an FTE analysis by function performed by the study team. It is noted that the divisions presented in the graphs below do not reflect the actual organisational structure at the broadcasters.

The graph below presents the distribution of the cost base at the ABC.



Similarly, the graph below presents the distribution of the cost base at SBS.



Both organisations attribute a significant proportion of their budget to transmission services. The varied distribution of the remainder of the budget across divisions between the ABC and SBS reflects the focus of each organisation. The ABC’s news and current affairs receives a large proportion of funding, while at SBS the major division receiving significant funding is television.

Appendix J provides a breakdown of the ABC’s 2013-14 Budget by division and location and **Appendix K** provides the SBS’s 2013-14 Budget by division and category.

2.5 Audience

Television

The following table summarises the average cost per hour, average audience per program for the ABC and SBS and provides a range and average for individual television programs which were broadcast and received verifiable audience figures for the period July-December 2013. These averages are based on a sample of programs provided by ABC and SBS, which included content that aired in primetime for which the broadcasters had audience data.

For comparison purposes, SBS content has been re-categorised to match the ABC’s genre format (for example, ‘food’ programs are a separate genre for SBS, whereas it is categorised as ‘factual’ by the ABC).

Costs and audience of ABC and SBS in-house and commissioned production

	Genre	Average cost per hour \$	Average audience per program	Best performing program - \$ per audience	Lowest performing program - \$ per audience	\$ per audience average
ABC	Entertainment	██████	██████	████	████	████
	Comedy	██████	██████	████	████	████
	Drama	██████	██████	████	████	████
	Factual	██████	██████	████	████	████
	Indigenous	██████	██████	████	████	████
	Sport	██████	██████	████	████	████
	Arts	██████	██████	████	████	████
	Documentaries	██████	██████	████	████	████
	Childrens	██████	██████	████	████	████
SBS	Entertainment	██████	██████	████	████	████
	Comedy	██████	██████	████	████	████
	Drama	██████	██████	████	████	████
	Factual	██████	██████	████	████	████
	Indigenous	██████	██████	████	████	████
	Sport	██████	██████	████	████	████

Costs and audience of ABC and SBS acquired production

	Genre	Average cost per hour \$	Average audience per program	Best program - \$ per audience	Lowest program - \$ per audience	\$ per audience average
ABC	Arts	██████	██████	████	████	████
	Entertainment	██████	██████	████	████	████
	Documentaries	██████	██████	████	████	████
	Factual	██████	██████	████	████	████
	Drama	██████	██████	████	████	████
	Comedy	██████	██████	████	████	████
SBS	Sport	██████	██████	████	████	████
	Factual	██████	██████	████	████	████
	Drama	██████	██████	████	████	████
	Comedy	██████	██████	████	████	████

Radio

Radio listeners are measured in terms of reach rather than the measure of audience used for television. Reach refers to the total number of people exposed, at least once, to a radio service in a given period.

SBS’s radio services are charter specific and provide in-language programs to 74 specific language communities. Given the limited appeal of these services outside their specific community groups, SBS does not collect listener data for its radio services.

Costs and reach of ABC and SBS radio networks

	Network	Total Budget FY13/14 (\$)	Reach (per annum)	Cost per listener per annum	Cost per listener per week
ABC	Classic FM	██████████	██████████	██████	██████
	News Radio	██████████	██████████	██████	██████
	triple j	██████████	██████████	██████	██████
	Radio National	██████████	██████████	██████	██████
	Local	██████████	██████████	██████	██████
SBS	Radio 1	██████████	██████	██████	██████
	Radio 2	██████████	██████	██████	██████
	Radio 3	██████████	██████	██████	██████

While the tables above provide a valuable static description of current audience levels for the ABC and SBS, it is clear that audience expectations are changing. The *SBS Corporate Plan 2010-13* identifies that the media is characterised by a radical transformation from a world of limited competition of TV and radio programs for audience consumption to one of abundance in which audiences can view a multitude of content in different forms, across multiple delivery platforms, which is supplied by a variety of creators and distributors, including user generated content.⁵ Smart devices and apps will provide viewers with increasing opportunities for the consumption of content anytime, anywhere.⁶ The current SBS corporate plan, *Our Plan 2013-2016*, notes that the effect of

⁵ *SBS Our Plan 2013-2016*, p 7-8.

⁶ *SBS Corporate Plan 2010-13*, p 7-8.

multiple platforms and content providers is to fragment audiences, with broadcasters' increasingly competing for audience share.⁷

The *ABC Strategic Plan 2013-16: A clear direction for the ABC* includes a focus on audience as a key strategy driving the ABC's achievement of its goals. To be 'audience focused', the ABC seeks to build audience engagement with ABC content across multiple delivery platforms, devices and formats and develop and implement content which maintains a weekly audience reach of at least 75% of the population across platforms. The ABC also seeks to continue to be a leader in innovation and to explore emerging platforms and devices to provide new and relevant content and services to audiences. As part of its emphasis on innovation, the ABC aims to build its business capability to respond to changes in audience behaviour and the media environment.⁸

Broadcasting is shifting towards an audience-pull rather than broadcaster-push model. This will fundamentally alter media consumption from the linear experience of the past to an on-demand viewing experience with viewers exercising choice in personalising media use by integrating traditional media content with social media.⁹ Access to content over multiple emerging distribution platforms also has the effect of fragmenting the media environment.¹⁰ Competition among content providers will continue to grow as Australian audience have greater access to Australian and international content.¹¹ However, despite these trends, linear TV is proving more robust than previously predicted, and this erosion is occurring more slowly.

Audiences will continue to shift towards on-demand content and use of multiple devices, with delivery shifting gradually from conventional broadcast to IP based networks (fixed and wireless). The growth of content and user choice for accessing content is likely to reduce the consumption of linear TV and radio content. The national broadcasters are likely to need to make their content available on a wider range of devices and increasingly for it to be consumed 'on-demand'.

2.6 Efficiencies already under consideration

The study acknowledges that the national broadcasters have through a number of mechanisms sought to identify efficiencies in their operations, and have also in recent years refocussed available

⁷ SBS *Our Plan, 2013-2016*, p. 11.

⁸ *ABC Strategic Plan 2013-16: A clear direction for the ABC*, p 2-3.

⁹ *SBS Corporate Plan 2010-13*, p 7-8.

¹⁰ *SBS Cost and Efficiency Review 2008-09-2011-12*, p 90.

¹¹ *SBS Corporate Plan 2010-13*, p 7

funds to meet areas of growing costs and to fund the delivery of new services. Many of the issues raised in this study are not new and a number of recent efficiency activities are identified in the efficiencies section of the study report below, including at the ABC its 'Vertical Integration' project, and moving to tapeless TV, and at SBS market testing of its playout facilities and investigating an automated service for providing transmission advice to the public.

The identification of new input efficiencies has also helped offset the difficulty of curtailing some traditional output activities which are now providing less value for money or are not as relevant to current audiences. In the fast-evolving broadcast environment free to air broadcasters, including the national broadcasters, face continual challenges in balancing the demands of traditional audiences – which in the case of SBS deliver the bulk of advertising revenue – with the growth of new areas and new demands from consumers including younger age groups. It has been evident during the study that the broadcasters are well aware of these complexities and that finding the right balance within existing resources is challenging and sensitive.

Establishing a discipline such as that described in section 5.2 (Interpreting Charter responsibilities) would assist the national broadcasters in aligning audience reach with services provided, and in explaining their decisions to the public and to government. There are a range of ways to achieve Charter objectives, and a risk that the ABC and SBS will otherwise try and do more and more with the same resources.

The study's terms of reference do not go to the content outputs of the broadcasters. However, the case studies below provide examples of the challenges faced in adapting traditional service outputs to new technology and audience demands.

Case Studies

Case Study 1 ABC Classic FM – live broadcasts

ABC Classic FM

In 2013, the ABC budgeted █████ million for Classic FM and █████ million for triple j. The average weekly reach for Classic FM is █████ which equates to █████ cents per listener p.a. The average weekly reach for triple j is █████ which equates to █████ cents per listener p.a.

The ABC records all orchestras in each city (except Darwin and Hobart). Recording and broadcasting orchestras at their current volume was a condition of the devolution of orchestras from the ABC, which was a recommendation of the 1996 Mansfield review.¹² The ABC considers that Classic FM relates directly to its Charter in relation to the encouragement and promotion of musical, dramatic and other performing arts in Australia¹³ and as such may be open to more qualitative benchmarking rather than quantitative.

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

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

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

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

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

¹³ *Australian Broadcasting Corporation Act 1983*, Subsection 6 (1)(c)

Case Study 2 SBS radio services**SBS radio services**

SBS currently broadcasts 74 language programs on analog and digital radio and digital television. Radio content is also available online and through mobile apps. In 2014-15 SBS will allocate [REDACTED] million of funding to provide multilingual and multicultural radio services.

In 2012 SBS completed a major review of its radio schedule with the aim of ensuring it provides language programming to the largest communities with culturally and linguistically diverse backgrounds, as well as emerging high-needs communities. The review involved a public consultation process to determine selection criteria to develop the new schedule which considered the size of communities, English language proficiency, recentness of arrival, age and the level of household resources and unemployment. The new schedule introduced six new languages, more programming for language groups which have grown and a new digital schedule for 21 languages.

As a result of the radio schedule review SBS reduced the hours of programming for some languages and moved some programs from analog to digital only services. Some community groups expressed concern about these changes in scheduling for listeners.

However, SBS did not consider it appropriate to reduce the number of language programs provided given Charter responsibilities despite very small population sizes of some communities and the availability of other sources of in-language programming such as services offered by community broadcasters. Inevitably this has spread resources more thinly and placed pressures on radio funding.

3 Efficiencies

The study has found five major areas where efficiencies may be able to be better realised by the ABC and SBS which are discussed in this section under the headings of working together, harnessing technology, modernising the business, revenue opportunities and better resource allocation.

General observations

When the ABC was established, there was no broadcasting industry in Australia. From the start, the ABC had to do everything, including building its own broadcasting infrastructure to produce its own programs and providing its own corporate-wide services. The broadcasting environment has now moved well beyond where the ABC began.

Modern trends in the broadcasting industry lean towards models which involve less direct ownership of functions and infrastructure, and more towards greater use of digital technology, outsourcing and purchasing of services. As a general comment, both the ABC and SBS should examine ways of modelling their operations in line with these prevailing industry trends. The study acknowledges that this is not necessarily a deliberate defensive strategy by the broadcasters but in at least some cases is driven by economic conditions. For example, in some cases, it may be more economical to own and operate a building than to lease it. However, over-investment in fixed or capital assets, as a way of minimising the risk associated with government funding changes, can drive inconsistent outcomes focused on asset utilisation rather than broadcasting outcomes.

Areas where both national broadcasters may be in a position to modernise their cost structures and expenditure patterns include back-of-office operations, digital technology and production facilities and practices.

For example, there may be opportunities where the ABC and SBS may be able to have a higher proportion of variable costs, rather than fixed costs, which would enable the broadcasters to adjust more readily to economic changes. Most modern organisations are focussed on increasing the variability of their expenditure to ensure that cost bases are able to adjust to changing economic environments. This 'variabilising' of the cost base provides greater levels of fiscal efficiency even without specific cost reductions by providing the organisation with the capability of managing its activities with less risk across both the short and longer terms. In this context, costs which are fixed (for example, depreciation) are more difficult to manage than the itinerant hire of fixed assets to meet specific tasks, i.e. setting resource levels to satisfy minimum workload requirements and buying capacity to meet peak workloads. For this reason, lower levels of fixed costs and higher proportions of variable costs have been considered as inherently more efficient, even with the same total quantum of costs.

The ABC and SBS have made significant investments 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 more efficiently use digital technology and resources through collaborative or outsourcing arrangements. Both broadcasters have also begun to invest in digital production capability. Options by which ABC and SBS may increase their use of digital technology in order to achieve savings or efficiencies now and over time are also considered in the study.

The study also explores the potential for the national broadcasters to more fully integrate their activities with current trends in the broadcasting industry through re-evaluating their corporate wide activities, more flexible advertising on SBS and outsourcing production facilities and services.

An independent market for the supply of broadcasting production facilities and services exists. In this context, the national broadcasters may no longer need to replicate production facilities and services. Purchasing required production facilities and services from private suppliers and providers is possible and may be more economical. Options where the ABC and SBS may be able to purchase production facilities and services from third parties in order to achieve savings or efficiencies are presented in the sections below.

Several efficiencies below are based on a comparison of the relative costs of the two organisations, to reach a view as to the savings possible if the lowest cost base is adopted. In the time available it has not been possible to fully review the reasons for different costs for the same activity, and there may be reasons why the full value of the efficiency identified cannot be realised by the higher cost organisation.

The following sections provide an activity by activity analysis of a wide range of ABC and SBS functions, identifying potential efficiencies. Section 1.1 sets out in more detail the parameters of the study, and the efficiencies below should be considered against that background. A table with implementation costs, efficiencies and capital savings for potential efficiencies suggested in the report is at **Appendix G**.

3.1 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. ABC and SBS have only taken limited steps to achieve efficiencies by sharing services and facilities and the study identified a range of areas where further opportunities might exist. This section explores a number of potential efficiencies that may be achieved as a result of closer collaboration between the broadcasters.

3.1.1 Human resources

The study assessed the efficiency and cost effectiveness of human resources functions at the ABC and SBS. The ABC currently has 69.7 FTEs working within the broadcaster's Human Resources division. The SBS currently has ■■■ FTEs working within its Human Resources division.

The study investigated cost efficiencies which could be achieved if the more efficient broadcaster's benchmark was applied to the other broadcaster. The following calculations were conducted to:

- determine the average number of payment summaries issued for the year ended 30 June 2013:
 - the ABC issued 7,506 payment summaries
 - SBS issued ■■■ payment summaries
- determine the ratio of payment summaries issued to HR FTE for each organisation:

- the ABC issued 108 payment summaries per HR FTE
- SBS issued [REDACTED] payment summaries per HR FTE
- calculate the theoretical number of HR personnel required at the ABC based on SBS’s ratio ([REDACTED] payment summaries per HR FTE) and ABC’s number of payments summaries per HR FTE (7,504).

The table below presents the results of the above calculations:

Human Resources - Payslip Analysis	ABC	SBS
HR FTEs	69.7	[REDACTED]
Number of payment summaries issued	7,506	[REDACTED]
Number of payment summaries per HR FTE	108	[REDACTED]

Findings

By using the SBS benchmark, the ABC may be able to reduce the number of FTEs in its HR division by approximately four. The table below presents the calculation.

Applying the SBS HR FTE benchmark to ABC	Number of payment summaries per HR FTE
Current ABC HR FTE	69.7
ABC HR FTE required using SBS benchmark	65.6
Difference	4.1

The redundancy cost of four FTE would be approximately \$0.5 million (factored on a historical average redundancy payment of \$125,000 per FTE). Subsequent annual savings based on ABC’s average FTE cost were estimated at approximately \$0.5 million. It is important to note, however, that the following underlying assumptions apply to these calculations:

- salary increments and other enterprise agreement increments have not been factored in
- a detailed review or comparison of the HR divisions at the two organisations was not conducted. Instead, the calculation is based on a high-level metric that provides an indicative result but does not factor in the complexity of the organisations’ HR divisions.
- the ABC provided the historical average redundancy payment per FTE of \$125,000.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	0.5	-0.5	-

3.1.2 Legal and business affairs

The study assessed the efficiency and cost effectiveness of the legal functions at the ABC and SBS. The SBS currently has [REDACTED] FTEs working within the broadcaster's Legal division. The ABC currently has 38.6 FTEs working within the broadcaster's Legal and Business Affairs division.

The study investigated potential cost efficiencies which might be achieved if the more efficient broadcaster's benchmark was applied to the other broadcaster. To arrive at indicative cost efficiencies, the study:

- determined the 2013-14 financial year budget of non-salary costs
 - the ABC's total non-salary costs were \$611,984,101
 - SBS's total non-salary costs were [REDACTED]
- determined the ratio of non-salary dollars spent per legal FTE
 - the ABC's ratio was \$15,854,510 per legal FTE
 - SBS's ratio was [REDACTED] per legal FTE
- calculated the theoretical number of legal personnel required at the ABC based on SBS's ratio of non-salary dollars spent per dollar spent on legal and ABC's total non-salary cost.

The table below presents the results of these calculations:

Legal - FTE Analysis	ABC	SBS
Legal Unit Total FTE	38.6	████
Legal Division - Salaries & Oncosts	\$5,545,000	████████
Average Cost per Legal FTE	\$143,653	████████
Total Broadcaster Expenditure (Budget 2013-14)	\$1,134,268,436	████████████
Total Broadcaster Non-Salary Costs	\$611,984,101	████████████
Ratio of non-salary costs to legal division expenditure	15,854,510	████████████

These calculations were based on a high level metric and did not factor in salary increments and other Enterprise Agreement increments nor did they consider a detailed functional comparison of the legal divisions of the ABC and SBS. For example, the ABC has a significant amount of local production which often may require higher levels of legal work as well as a large number of contracted services.

Findings

By using the SBS benchmark, the ABC may be able to reduce the number of FTEs in its Legal and Business Affairs division by approximately 15.5 FTEs, as per the table below.

Applying the SBS benchmark to ABC	Number of FTE
Number of legal FTE required at ABC based on SBS benchmark	23.1
Current number of legal FTE at ABC	38.6
Difference	15.5

The redundancy cost of 15.5 FTE would be approximately \$1.9 million, based on an average redundancy payment of \$125,000 per FTE. Subsequent annual savings of \$2.2 million have been estimated based on ABC’s average FTE cost.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	1.9	-2.2	-

3.1.3 Finance and accounting

The study assessed the efficiency and cost effectiveness of the finance and accounting functions at the ABC and SBS. The study investigated the cost efficiencies that would be achieved if the more efficient broadcaster's benchmark was applied to the other broadcaster. A detailed comparison of the finance and accounting divisions at the two organisations has not been undertaken.

SBS

The study did not identify any specific significant efficiencies in the finance and accounting functions at SBS.

ABC

The ABC currently has 80 FTEs working within the broadcaster's Finance and Accounting division.

The study:

- determined the ratio of broadcaster expenditure (less transmission costs) for each organisation:
 - the ratio for the ABC was \$11,528,313 per finance and accounting FTE
 - the ratio for SBS was \$12,164,544 per finance and accounting FTE
- calculated the theoretical number of finance and accounting personnel required at ABC based on SBS's ratio and ABC's total broadcaster budget (less transmission costs).

The calculation below is based on a high-level metric to provide an indicative result, but does not factor in the complexity of the organisations' finance and accounting divisions. The calculations do not factor in salary increments and other enterprise agreement increments.

The table below presents the results of the calculations above.

Finance - FTE Analysis	ABC	SBS
Total Finance Function FTE	80.1	24.2
Total Broadcaster Budgeted Expenditure	\$923,417,855	\$294,381,976
Broadcaster budget per FTE	\$11,528,313	\$12,164,544
Current ABC Finance Staff		80
ABC Finance Staff required using SBS benchmark		76
Difference		4
Potential savings		
Estimated redundancy cost		-\$523,675
Savings in subsequent years		\$477,700

Findings

Both organisations have very similar numbers of Finance and Accounting FTE when measured against expenditure. The study found that by applying the SBS benchmark to the ABC, the ABC may be able to reduce the number of FTE in its finance and accounting division by four.

The redundancy cost of four FTE would be approximately \$0.52 million, based on a redundancy payment of approximately \$125,000 per FTE. Subsequent annual savings, based on ABC’s average FTE cost, is estimated to be up to \$0.48 million.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	0.5	-0.5	-

3.1.4 Audience and consumer affairs

ABC

The ABC currently has 13.1 FTEs working within Audience and Consumer Affairs who are responsible for reviewing all contacts that the ABC receives, identifying editorial complaints requiring assessment, and responding to other contacts as required.

In 2012-13, Audience and Consumer Affairs logged 47,205 audience contacts, including 21,857 complaints, 17,226 requests/suggestions and 3,907 appreciative comments. The Audience team also investigated 3,177 written complaints and responded to 97.3% of complaints within 60 days.

SBS

The SBS Audience Relations team has [REDACTED] FTEs and provides a first port of call for any direct contact with the general public in relation to audience or content enquiries. In 2013, the SBS Audience Relations team received 97,160 public interactions, of which SBS estimates approximately 20% of the telephone calls received were not audience related.

The SBS Audience Relations team responds to general enquiries and requests for information. Any audience contact that meets the criteria of being a 'formal complaint', that is, a complaint in writing, is directed to the SBS Ombudsman, who carries out an independent examination of the issue. The SBS Ombudsman and support staff represents [REDACTED] FTEs.

It was noted that the SBS Audience and Relations team appear to be replicating the role of a switchboard to some degree and that the organisation does not appear to have a sophisticated filtering system to ensure only relevant audience contacts are passed through to Audience Relations. In addition, the study was concerned that SBS was unable to distinguish between various categories or levels of public interaction.

Finding

The study's ability to effectively benchmark this function was hampered by SBS's inability to provide relevant statistics. In the absence of other data, the study undertook an analysis of the number of written complaints received and investigated in financial year 2012-13 to compare formal complaints handling processes by the ABC and SBS.

It was noted that the ABC investigated 3,177 written/formal complaints with 13.1 FTE or 242.5 complaints per FTE, whereas SBS investigate [REDACTED] written/formal complaints with [REDACTED] FTE or [REDACTED] complaints per FTE in the same period. Applying the ABC benchmark to SBS indicates that [REDACTED] FTE would be required to investigate [REDACTED] written/formal complaints, resulting in an ongoing saving of approximately [REDACTED] million per annum following an implementation cost of [REDACTED] million in the first year.

Alternatively, given the ABC is meeting this function with 13.1 FTE and SBS with [REDACTED] FTE, anecdotal evidence suggests that the ABC is considerably more efficient, as it has a significantly higher audience and diversity of services.

For example, an analysis based on television audience share alone, indicates that the ABC utilises 0.87 FTE per 1% of audience share, compared to the SBS utilisation rate of [REDACTED] of audience share (assuming a network channel share of 18.1% for the ABC and 5.6% for SBS¹⁴). Applying the ABC FTE ratio to SBS equates to a reduction of [REDACTED] for this function, or [REDACTED] million ongoing, following a [REDACTED] million implementation cost. It is understood that SBS has been giving consideration to their audience and consumer affairs processes along similar lines and should be commended for this. The study encourages SBS to finalise their discussions.

The study considered that in the absence of other relevant data from SBS to justify the higher comparative level of FTE, an analysis based on audience data (which is assumed to drive the level of consumer interaction) was a suitable alternative. On this basis, the SBS would achieve efficiencies by moving to the ABC benchmark.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
SBS	[REDACTED]	[REDACTED]	-

3.1.5 Communications, Marketing, Publicity and Promotion

The study conducted a high level assessment of the efficiency and cost effectiveness of each broadcaster’s Communications, Marketing, Publicity and Promotions divisions (excluding SBS resources dedicated to commercial advertising activities).

To conduct this assessment, the study undertook the following:

- obtained estimates of ABC and SBS Communications, Marketing, Publicity and Promotions FTE
- obtained each broadcaster’s TV audience share based on OzTam audience analysis
- calculated the ratio of Communications, Marketing, Publicity and Promotions FTE to audience percentage
- applied the lower ratio calculated above to the broadcaster that had the higher ratio

¹⁴ Oztam, Primetime audience for the free-to-air channels, 2013.

- based on the above calculation, estimated the number of FTE that could be reduced at each broadcaster.

The tables below present the results of the study’s calculations:

	ABC	SBS
Audience share (based on OzTam figures)	18.1%	5.6%
Number of Comms/Marketing/Publicity/Promos staff	92	█
Ratio (staff per percent of audience viewership)	5.11	█
Ideal number of staff based on ABC's ratio		█
Difference		█
Financial analysis		
Cost of redundancy (per FTE)		█
Total cost of redundancy		█
Average salary at SBS		█
Subsequent savings		█

Findings

The study found that some cost savings and efficiencies might be achieved by reviewing the Communications, Marketing, Publicity and Promotions division at SBS. Noting that ‘FTE ratio to audience share’ is an indicative calculation and not an ideal benchmark, the study found that savings of up to █ million at SBS may be achieved.

The indicative FTE reduction represents about half the current SBS staff, and a reduction of this magnitude may be unrealistic. SBS’s promotional approach focuses on significant ‘below the line’ promotional activity which, it argues, is more effective in reaching its niche audiences, but which inevitably requires more staff. The study suggests that a more detailed review into the Communications, Marketing, Publicity and Promotions divisions’ expenditure, processes and procedures be conducted by the SBS. Such a review should also consider an appropriate benchmark for assessing the success of promotional activity.

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

3.1.6 Technology (including Information Technology)

The study assessed the efficiency and cost effectiveness of each broadcaster’s technology divisions. Given the time constraints of this study, undertaking a detailed review of all technology functions was not possible. To obtain a high-level understanding of comparative numbers of the two agencies, the technology divisions were split into information technology (covering IT functions such as applications, helpdesk, and networking), and technology (covering broadcast and media-related technology teams).

To conduct a high level efficiency assessment of the IT and technology divisions at the ABC and SBS, the study:

- obtained estimates of ABC and SBS technology FTE and split them into IT and technology
- calculated IT and technology FTE as a percentage of total FTE at each broadcaster
- applied the lower percentage calculated above to the broadcaster that had the higher percentage
- based on the above calculation, estimated the number of FTE that could be reduced at each broadcaster.

The table below presents the study’s calculations. These figures are indicative only; the study notes that any recommendations in relation to IT and technology should be made only after a detailed review of the IT and technology functions at both broadcasters.

	Technology		IT	
Item	ABC	SBS	ABC	SBS
Number of staff	222	█	149	█
Total Staff	4,580	1,084	4,580	1,084
Percentage of staff	4.8%	█	3.3%	█
Applying lower percentage as benchmark		█	3.3%	
Ideal number of staff	181			█
Current number	222			█
Difference	41			█
Average cost of redundancy (\$)	125,000			█
Total cost of redundancy (\$)	5,093,514			█
Average salary (\$)	114,026			█
Subsequent savings	4,646,341			█
Total savings	5,070,357			

Findings

The study found some cost savings and efficiencies are likely to be achieved by reviewing the IT and technology divisions at the ABC and SBS. Noting that ‘percentage of FTE’ is an indicative calculation and not an ideal benchmark, the study found that savings up to \$ 4.6 million at the ABC and up to █ at SBS may be achieved. Ideally the study would have based the analysis on the number of active IPs addresses however this data was not available for both broadcasters.

Given that this assessment has been predicated on information of a high-level and of a general nature, a more detailed review of the national broadcasters’ Technology Division expenditure, processes and procedures should be undertaken to confirm this quantum of potential savings.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	5.1	-4.6	-
SBS	■	■	

3.1.7 Joint purchasing arrangements

The study conducted an assessment of cost savings that might be achieved if the ABC and SBS combined their purchasing power and entered into a joint (group) purchasing arrangement. The assessment was based on identifying ABC and SBS key suppliers for which a joint purchasing arrangement could result in savings.

The sectors in which the suppliers belong are:

- telecommunications (voice, mobile and data plans, excluding services delivered to the ABC but not purchased by SBS)
- travel
- content delivery networks.

To identify the potential savings that may be achieved as a result of a joint purchasing arrangement, the study:

- obtained financial information from sources including pricing schedules and rate cards for each of the suppliers selected for the sample
- calculated the difference in rates achieved between ABC and SBS
- applied a financial model to calculate a weighted discount that could be applied across the remainder of the eligible joint purchases, which factored in:
 - the proportion of each sector's value of purchases; and
 - the size of the discount identified for each sector
- applied the weighted discount rate to the remainder of purchases eligible for joint purchasing to estimate the potential cost saving that may be achieved if the ABC and SBS enter into a joint purchasing agreement.

ABC

The study identified a total of approximately ■ million of purchases eligible for joint purchasing at ABC. The table below provides further details on the percentage that each sector represented:

Sector	Approximate (annual) amount paid to supplier	Percentage of total eligible for joint purchasing
Content Delivery Network	████ million	2.5%
Travel	████ million	3.9%
Telecommunications (services eligible for joint purchasing only)	████ million	15.6%
Total (sample)	████ million	22.0%
Other (eligible for joint purchasing)	████ million	78.0%
Total eligible for joint purchasing	████ million	100%

SBS

The study identified a total of approximately █████ million of purchases eligible for joint purchasing at SBS. The table below provides further details on the percentage that each sector represented:

Sector	Approximate (annual) amount paid to supplier	Percentage of total eligible for joint purchasing
Content Delivery Network	████ million	3.9%
Travel	████ million	5.6%
Telecommunications	████ million	15.5%
Total (sample)	████ million	25.0%
Other (eligible for joint purchasing)	████ million	75.0%
Total eligible for joint purchasing	████ million	100%

Combined total of eligible joint purchasing for the ABC and SBS

The study combined the total of eligible joint purchasing amounts at both broadcasters. The results are presented in the table below.

Sector	Approximate (annual) amount paid to supplier	Percentage of total eligible for joint purchasing
Content Delivery Network	■ million	2.8%
Travel	■ million	4.3%
Telecommunications (services eligible for joint purchasing only)	■ million	15.6%
Total (sample)	■ million	22.7%
Other (eligible for joint purchasing)	■ million	77.3%
Total eligible for joint purchasing	■ million	100%

This assessment is not based on a detailed analysis of suppliers and types of services outside of the sample selected. The assessment of potential savings also assumes that all the suppliers in the sample would be providing discounts. No external factors, such as exchange rates, interest rates and inflation were considered in assessing cost savings.

Findings

On a weighted average basis, the ABC and SBS achieved a cumulative discount of approximately 4.3% across the payments made to suppliers within the telecommunication, travel, and content delivery sectors.

If the 4.3% discount is applied to the remainder of purchases eligible for joint purchasing, and added to the savings identified for the sectors in the sample, a saving of approximately ■ million may be possible.

The study expects that additional savings for a larger purchasing power for the two organisations in a joint purchasing agreement would result in further potential cost savings. However, this additional discount cannot be determined without further investigation.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	-	-5.0	-
SBS	-	■	-

3.1.8 Co-location

The ABC and SBS own and operate separate sites in Melbourne and Sydney. The ABC operates the Ultimo site in Sydney and plans to operate the Southbank site, currently under construction in Melbourne. SBS operates the Federation Square site in Melbourne and the Artarmon site in Sydney.

Savings through ABC and SBS co-locating in Sydney and Melbourne have been identified in previous reviews. The option to co-locate should be re-considered, given that work has commenced on the new ABC Melbourne Southbank facility. SBS is also considering options regarding the future of its Artarmon facility and there is a risk of a substantial cost to the Commonwealth should SBS need to purchase or build a new property or refurbish its current property.

ABC

The total area of the Ultimo property (excluding loading docks) is 44,358 square meters, comprising:

- 1,322 square meters of meeting rooms
- 6,311 square meters of studios
- 24,025 square meters of offices
- 343 square meters of tenanted space
- 12,357 square meters other spaces comprising plant rooms, archive areas, storage areas, etc.

There are approximately 1,925 staff at the Ultimo office.

SBS

The total area of the Artarmon property (excluding loading docks) is 18,182 square meters, including 1,082 square meters of studios. SBS has 921 staff at Artarmon and has additional space which is currently tenanted.

The study investigated potential cost efficiencies that could be achieved if SBS co-located its operations with the ABC at the Ultimo site. The study calculated, at a high level, the theoretical physical capacity of the ABC's offices and assessed if SBS staff can be re-located on this basis. It also

calculated, at a high level, estimated costs and savings that could be incurred in relation to co-location.

To calculate the theoretical physical capacity at Ultimo to accommodate SBS staff, the study undertook the following:

- obtained the number of SBS staff in Artarmon
- noted that SBS is trialling an Activity Based Workstation Seating (ABWS) arrangement whereby 115 staff working on related tasks are seated closely in a working area of 1,000 square meters (the average space is 8.7 square meters per person)
- used 16 square meters per person for staff not involved in an ABWS arrangement, noting that the ABC uses 14 square meters per person as its benchmark and the Australian Government occupation density target is 16 square meters per occupied workpoint¹⁵
- identified, in consultation with SBS, that 509 staff represent candidates for ABWS arrangements, representing 55.3% of total SBS staff at Artarmon
- applied the 55.3% ratio to the total number of ABC staff to arrive at a theoretical number of 1,064 ABC staff that could be candidates for ABWS
- calculated the total 'used environment' at the ABC by adding the following areas:
 - meeting rooms
 - offices
 - other areas.

The 'used environment' at the ABC totalled 38,045 square meters.

Calculations for the ABC staff:

- allocated 1,064 staff to ABWS areas totalling 9,251 square meters on the basis that staff sitting in an ABWS area require 8.6 square meters per person
- allocated 861 staff to non-ABWS areas totalling 13,778 square meters on the basis that staff sitting in a non-ABWS area require 16 square meters per person
- the theoretical area required for ABWS and non-ABWS areas totalled 23,029 square meters
- calculated 'used environment' less the theoretical area required for ABWS and non-ABWS areas totalled 15,016 square meters (=38,045 – 23,029 square meters)

¹⁵ *Commonwealth Property Management Guide*, January 2010, footnote 4 p 11.

Assuming that the surplus space (15,016) would be used as non-ABWS area and that each staff member in this area would require 16 square meters, the theoretical number of staff that could be housed in this area is 938 (=15,016 / 16).

Other implications of co-locating the national broadcasters at Ultimo were also considered. If the broadcasters are co-located, SBS and ABC would remain separate entities in any co-location arrangements in Sydney. 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 and appropriate charging arrangements.

The study notes that, if adopted, physical co-location would facilitate the national broadcasters realising the benefit of other efficiencies, including;

- all combined corporate activities (IT, Finance, HR etc.)
- joint buying/joint venture initiatives.

Findings

Property sharing between the ABC and SBS has been considered on previous occasions, but with little movement towards shared space. The study acknowledges that the findings in this section are controversial and would rely on very substantial changes in the work practices of the organisations, particularly the ABC. Nevertheless, the study considers that a conversation about property sharing should take place as a means of achieving efficiencies.

In terms of the capacity at Ultimo to accommodate SBS staff, the study found that, if ABWS arrangements are implemented and 55% of Ultimo staff are seated in an ABWS arrangement, surplus space will be available to accommodate up to 938 additional staff. Based on this, the study concluded that 921 SBS staff could be accommodated at ABC offices in Ultimo. This estimate is based on the calculations above and does not consider the actual space and physical layout of the Ultimo facility.

In terms of potential savings which may be achieved from co-location in Sydney, the study calculated an immediate net saving of approximately [REDACTED] million may be achievable. This amount is the result of the high level calculations above. There may also be savings to SBS for costs avoided relating to security, reception, insurance, and the potential replacement or refurbishment of the Artarmon facility. A similar potential savings may arise from an investigation of co-locating the ABC and SBS in Melbourne.

The above estimates rely on adoption of ABWS. If this is not feasible, other options could be investigated including housing a majority of SBS staff in Ultimo, including those who require day to day physical access to the various technology or production facilities available in Ultimo, and the remainder in appropriate office space elsewhere in Sydney.

While revenue from the sale of Artarmon (currently with a book value of around [REDACTED]) and savings of lease expenses for Federation Square may offset the costs of additional accommodation at Ultimo and Southbank, further analysis is required to quantify transition costs, including potential redundancies.

The study suggests that the ABC and SBS boards consider commissioning advice on efficiencies to be achieved from co-location, including a detailed feasibility study which would also obtain detailed quotes for moving and refurbishment from the market.

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

3.1.9 Shared back of office operations and third party operator

The study considered an option in which the ABC and SBS would share back office functions.

In recent times, several shared services models have been implemented particularly across local government and commonwealth agencies. To demonstrate the implications of a shared services model, the Victorian State Government released a paper entitled *Community Sector Shared Service, Why consider shared services?* In this document, the following advantages of the shared services model were highlighted:

- improved cost-effectiveness
- improved service quality and staff capacity
- reduced risk, greater collaboration and other benefits

Conversely, some disadvantages were also highlighted including:

- loss of control/less tailored services
- less job diversity
- greater exposure to competitors

Whilst the study did not conduct a detailed feasibility analysis of the shared back office function, the option was considered at a high-level.

The ideal candidates for the shared back office functions at the ABC and SBS are the following divisions:

- Finance and accounting
- Human resources
- Legal
- Information Technology
- Facilities management

If the shared back office model were to be implemented, based on the study’s review of the ABC’s and SBS’s individual divisions, the study estimated that the back office function would comprise the following FTE:

Function	Estimated FTE
Finance and accounting	█
Human resources	█
Legal	█
Information Technology	█
Facilities management	█
Total	█

Specific savings of the shared functions could not be identified; however, it is reasonable to assume that management roles could be reduced in this structure.

Other considerations of the shared services model across the two broadcasters are outlined below:

- *Location*

ABC and SBS are currently operating from different locations and this may be an impediment in obtaining the full efficiency from a shared services model. Ideally, a shared services division would serve both organisations more effectively if they are located in proximity to each other or are co-located in a single location.

- *Governance*

There are several models that can be considered for the shared services function. For example, ABC and SBS can enter into a service level agreement whereby the shared services function sits under one organisation and provides services to the other. Alternatively, a separate entity jointly owned by the two broadcasters, or a third-party commercial operator, could deliver these services to both broadcasters.

- *Transitional costs*

It is likely that significant transitional costs will be incurred to ensure that the shared services functions can provide similar or better services to each broadcaster. It is vital to the success of the shared services function to be studied carefully prior to implementation. Additionally, an assessment should be undertaken of the financial benefits to the Commonwealth from implementing a shared services model.

Findings

The study considered that there are a range of efficiencies that could be realised through sharing back office functions. However, more analysis is required to evaluate governance models, clarify implementation costs and identify potential third party providers. It is suggested that the ABC and SBS jointly investigate the feasibility of establishing a shared back office model, including possible delivery by the commercial sector.

3.2 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 more efficiently use digital technology and resources through collaborative or outsourcing arrangements. Both broadcasters have also begun to invest in digital production capability. This section outlines potential efficiencies that could be realised through the use of digital technology.

3.2.1 ABC Innovation

The ABC's Innovation division is responsible for the ABC's overall online and mobile strategy and employs 70.7 FTEs at a cost of \$16.4 million p.a. The Innovation division has four functions: Digital Architecture and Development, Digital Network, Strategic Development and ABC Splash.

Digital Architecture and Development and Digital Network provide functional tools and standards and operate the ABC homepage, the content site Health, Science and Ramp Up and the educational site, ABC Splash.

The Strategic Development area employs 12.6 FTEs at a cost of \$1.9 million p.a. to develop products and tools which are then used by content areas.

The ABC Splash website, separately funded by Government, provides content from all ABC services. Freely available for use in schools and homes, it has a reach of 1.25 million people, 100,704 unique visitors p.a. and is used in over 9,400 schools by 258,985 teachers from Kindergarten to year 10. ABC Splash funding of \$1.5 million p.a. expires in the 2013-14 financial year. The total cost of ABC Splash is \$3.4 million p.a.

Other areas in the ABC also contribute to online and mobile services. For example, the TV and Radio Multiplatform departments develop and operate audience-focussed services to align with relevant audience and content strategies. They also publish content which complements content available through other platforms. In addition, News Online provides an online and mobile news service.

There is a current total of 235.7 FTEs across the Innovation Division, TV and Radio Multiplatform area and News Online, with salaries and expenses totalling \$36.8 million, excluding other staff in content divisions creating content for mobile and online audiences, social media and moderation requirements.

Findings

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

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

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

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

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

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

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

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

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

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

Options

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

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

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

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

¹⁶ SBS website http://www.sbs.com.au/ondemand/help/#faq_9 accessed 20 March 2014.

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

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

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

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

Findings

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

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

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

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

3.2.3 Digital audio broadcasting (DAB) services

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

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

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

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

Findings

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

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

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

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

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

3.2.4 Retransmission on Foxtel

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

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

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

ABC

The ABC’s agreement with Foxtel under the Foxtel Retransmission Deed deals with both cable and satellite retransmission. █

█
 █
 █
 █
 █

█
 █
 █

[REDACTED]

SBS

SBS also has an agreement with Optus for satellite capacity to retransmit SBS services on Foxtel. [REDACTED]

[REDACTED]

Findings

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

Although virtually all Australians have access to ABC and SBS through a free-to-air delivery mechanism, ABC and SBS are nevertheless likely to have concerns about removing their content from Foxtel, to the extent that the Foxtel viewers that receive their service via satellite may choose not to adopt an alternative source of the service, or an alternative source of the service would require additional set up costs. For example, while a terrestrial signal may be available, it is possible that some Foxtel households may not have a free-to-air aerial in place and would need to install one (or a VAST set top box) to access the free-to-air signal. The study does not have numbers of households in this situation. [REDACTED]

[REDACTED] Further analysis is required to determine the extent and validity of these concerns, noting the significant ongoing annual cost to the broadcasters of maintaining a Foxtel presence.

[REDACTED]

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

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

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
ABC	-	-4.2	-
SBS			-

3.2.5 Tapeless TV

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

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

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

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

While the incremental approach has achieved significant savings via individual initiatives, this approach has resulted in file based process ‘islands’ that require the maintenance of tape and file based hybrid workflows that create bottlenecks in making content available for wider use across the corporation.

Existing ABC Projects that will deliver a Tapeless Workflow

The study notes that to achieve the full benefits of a tapeless environment to provide a sustainable and consistent approach to media management across the ABC requires completion of the following work to connect existing process islands to achieve the ‘ingest once, use many times’ methodology:

- Media asset storage project (MAS) – ABC archive requires upgrade and expansion of its digital archive to receive file based native content – for storage/re-use or content for multi-platform
- Digibeta replacement project phases 1 -3
 - Phase 1 – replaced digital Betacam cameras for TV production with file based cameras - complete
 - Phase 2 – provided studio record and storage and ingest capability for Sydney and Melbourne – complete
 - Phase 3 – provision of desktop viewing/editing tools/revised work practices to replace tape based operations.

Findings

Proceeding with the incremental use of tapeless TV and other associated projects which will ingest media once to be used many times may realise a savings of up to \$1.6 million within two years, noting, however, that this savings is achieved from ABC Resources, TV and Technology. A reduction in Technology discussed in section 3.1.6 will potentially inhibit the achievement of this amount. Possible additional savings may also be gained through capital investment.

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

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

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

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

3.3 Modernising the business

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

3.3.1 Outsourcing production

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

Outsourcing production capability

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

Adelaide

The large television production studio is rarely used. TV production demand currently consists mainly of internal documentaries and one-off specials. There is little sport and events demand now that the South Australian National Football League has elected to partner with another broadcaster.

There are a small number of TV production related post production facilities and field operation units.

Sydney

Sydney currently has two large television production studios with high usage rates. Studio 21 is a multi-camera high definition studio while Studio 22 is a larger multi-camera studio (760 sqm). There are also extensive post production facilities and field operations.

Melbourne

Melbourne currently has three television production studios located at Elsternwick, one large multi-camera (studio 31 at 400sqm), a large soundstage for Drama and Narrative Comedy (studio 32 at 400sqm) and a smaller multi-camera studio (studio 33 at 2 x 90sqm) with two separate floors serviced by one control room. There are also post production facilities and a field operations unit for TV production.

The Melbourne Accommodation Project (MAP), proposed to be located at Southbank, would include a large multi-camera production studio (twice as big as studio 31 at 800 sqm) and a smaller multi-camera studio (replicating studio 33 at 200sqm). No sound stage is proposed. All Drama and Narrative Comedy commissions will have to be produced offsite.

A TV Production Facility was scoped as part of the MAP. Based on 50 days of production, Ernst & Young modelling indicated that it would be cost effective to include a large production studio (800sqm) and a smaller studio (200sqm) in the new building, replacing two of the three studio spaces currently in Victoria. The cost of this facility is approximately \$176 million (including a loan of \$90 million from the Commonwealth Government).

Outsourcing Melbourne production

Decisions about outsourcing production capacity would depend on a range of complex issues around the costs, availability, and suitability of alternatives. However, the study has undertaken an investigation of the impacts of using external production facilities in Melbourne, as compared to building these in-house. Melbourne was considered a suitable test case as the ABC is embarking on the MAP project involving building new in-house facilities.

For the purpose of the analysis, a high impact option was modelled which would provide an upper limit of the savings that might be achieved. The model involves replacing the facilities currently proposed for inclusion in the MAP, with all production undertaken in facilities provided by the independent sector, or outsourced to other parties. This would then allow management, administration and editorial staff to be relocated to rented facilities, or a smaller office building to be

constructed. This outsourcing would result in approximately 175 operational FTEs associated with TV production being made redundant, including support areas such as Technical Services. The cost of redundancies payments are estimated at \$21.6 million.

Facilities charges and outsourcing

The facility charges contained in the total cost of Victorian production reflect current market rates and are comparable. The labour rates reflect direct costs to the ABC and are also comparable.

Using commercial rate cards, the estimated cost of operational labour and facilities hire for the current production demand would be as follows:

External Vic TV Production modelled on 13/14	Total Expenditure
External Operational Labour Hire	\$3,799,521
External Facility Hire	\$5,838,240
Total Cost of outsourcing Vic TV Production	\$9,637,761

The additional operational expenditure of \$9.6 million incurred by using external resource providers for labour and facilities could be offset from the \$9.5 million in savings from removing ABC Resources and Technical Services in Victoria, as follows:

External Vic TV Production modelled on 13/14	Total Expenditure
Savings from ABC Resources Victoria & Technical Services Vic	\$9,488,197
Estimate cost of outsourcing Vic production	\$9,637,761
Additional Cost of outsourcing all Vic production	\$149,564

If a 10% volume discount from the resource provider were to be achieved on outsourcing facilities in Melbourne, savings of up to \$0.4 million may be achieved:

External Vic TV Production modelled on 13/14	Total Expenditure
Savings from ABC Res Vic & Tech Services Vic	\$9,488,197
Estimate cost of outsourcing Vic production with a 10% discount on Facility rates	\$9,053,937
Additional Cost of outsourcing all Vic production	\$434,260

In addition, should 246 FTEs be relocated to another site in Melbourne, a relocation cost of \$3.7 million (based on relocation costs of \$15,000 per FTE) will be required, with approximately \$2 million paid annually for this suitable office space in Melbourne (without production facilities). Alternatively, the ABC could use its existing capital and the proceeds of the sale of the Elsternwick properties to build a smaller, less specialised office to accommodate its staff.

Findings

Consistent with industry trends, the study notes that there may be significant scope for savings to be achieved from outsourcing ABC production to external facilities. Against this would be the cost of moving to this model, any staff redundancies, and the fact that existing capacity is a 'sunk cost' which is already underutilised at several locations.

The estimated additional operational expenditure of \$9.6 million incurred through the use of external resource providers for labour and facilities in Victoria could be funded from the estimated \$9.5 million in savings from closing ABC Resources and Technical Services in Victoria. This would require relocating approximately 200 FTEs (assuming Resources and Technical Services staff are not transferred) from the Elsternwick location. Re-location costs would be approximately \$1.6 million.

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 MAP, on which construction has just commenced. Given the approval process, the study is realistic about the difficulties of amending the MAP at this late stage; however, the ABC could investigate whether its existing capital and the proceeds from the sale of its Elsternwick sites are sufficient to build a smaller office without the two large studios. In such circumstances the existing Commonwealth loan may no longer be required, which would result in a capital saving of \$90 million to the Budget.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	21.6	-0.4	-90.0

3.3.2 Outsourcing property management

The study assessed the savings that could be achieved by outsourcing the management of ABC's facilities.

ABC

The ABC currently occupies properties across Australia in metropolitan and regional areas. Out of the 95 FTE that work within the Facilities Management division at the ABC, approximately 45 FTE work specifically on facilities functions (as opposed to mail room, security, and recycling) and approximately 1 additional FTE has a management role.

The study did not formally approach the facilities management market to obtain savings associated with outsourcing property management. However, through informal discussions with commercial providers, it obtained a high level approximation method that stated annual cost of outsourcing facilities management is:

- approximately 0.8% to 1.2% of total property expenses before outsourcing
- the cost of maintaining approximately 30% of current facilities management staff to oversee the outsourced service.

To estimate potential savings, the study obtained the efficiencies achieved in the scenario that ABC keeps 30% of its facilities staff and outsources the facilities management function.

The result of the calculations is presented in the table below. No salary increments, inflation, changes in prices, and other economic factors have not been factored in these calculations.

ABC	
Total cost of property related expenses	\$26,526,449
Estimate rate charged for outsourcing	1.20%
Cost of outsourcing	\$318,317
Staff required to stay at ABC (30%)	14
Cost of staff	1,596,363
Total cost of property management (if outsourced)	1,914,680
Current approximate cost of facilities management (45 FTE)	5,131,167
Estimated savings	3,216,486
One-off redundancy cost (31 x 125,000)	3,875,000

Findings

The study's analysis found that approximately 31 FTE from facilities management would no longer be required if property management is outsourced. A one-off cost of \$3.9 million would be incurred to implement redundancies. Subsequent savings are estimated at \$3.2 million per annum.

The study considers that a detailed feasibility study by the ABC would be needed to confirm these efficiencies and should be undertaken prior to undertaking the outsourcing of facilities management functions.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	3.9	-3.2	-

3.3.3 SBS Playout facilities

SBS

SBS has an existing contract with MediaHub for the presentation and playout of NITV and two pay TV channels (World Movies and Studio).

SBS is currently undertaking a confidential market process in order to test the proposition that the further outsourcing of similar functions for other channels will lead to savings. A number of responses have been received from the market and SBS is currently evaluating these with a view to making a recommendation to its Executive Committee before the end of June 2014.

In order for the commercial opportunity to be attractive, SBS considers the following needs to be ensured:

- the selected partner has a viable technical solution that meets the unique requirements of SBS
- there is a successful transfer of the necessary intellectual property and skills from SBS to the Outsource partner, and SBS manages the impact on employees
- SBS can execute a significant transformation plan within an acceptable level of risk
- the associated savings offset the incremental risk associated with any principal-agent problems created by the outsource arrangement

As SBS has embarked on a competitive market process it was not able to disclose details of its process to the study.

However, SBS has provided the study with estimates of the current operating costs of the presentation and playout functions. Using these costs, and information provided by the ABC regarding operating expense savings achieved through the outsource of similar functions to Media Hub in 2010-11, the study has estimated that ongoing cash operating expense savings of approximately [REDACTED] p.a. are achievable through this process.

Findings

The SBS has committed to informing the Department of the results of its tender process and any associated savings likely to be forthcoming. The study notes that the ABC achieved a savings of 16.5% by moving its playout operations to MediaHub.

As the SBS figure was not available in time for the completion of the final report, for the purposes of an estimate the study has applied the percentage of savings achieved by the ABC which equates to an efficiency of approximately [REDACTED] p.a.

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

3.3.4 Outsourcing Outside Broadcast (OB) Vans

The ABC uses its outside broadcast (OB) vans for a range of TV programs, including news and current affairs. The OB vans are also part of the ABC's disaster recovery strategy. The ABC also uses OB vans to provide services to smaller communities through hosting music concerts and community events. (The SBS does not operate any OB vans.)

The ABC currently operates seven OB vans (Adelaide, Brisbane, Canberra, Darwin, Melbourne, Sydney, and Perth). In 2014, the ABC expects to reduce its fleet to six OB vans (Adelaide, Brisbane, Darwin, Melbourne, Sydney and Perth).

Costs for the operating, maintenance and depreciation costs for the six vans are expected to total approximately \$3.2 million. A capital refurbishment program of \$6.7 million is currently underway, including a new OB van for Darwin (\$1.2 million), the refurbishment of two OB vans (at \$2.7 million each). When the refurbished vans return to service, the two oldest vans will be retired.

In 2012 the breakeven point for the utilisation of OB vans was determined by the ABC at approximately 60 days annually across the entire fleet, based on a capital refit option costing \$12.5 million. In 2013 OB van operating costs were \$1.6 million, for 595 broadcast hours from 388 OB days of activity.

In 2014, 227 days of OB production are expected to be commissioned to produce 571 TV content hours. Of the 227 OB days, 111 are expected to be produced across Sydney and Melbourne with 116 OB days in the regions. The average cost of these OB's, including a notional facilities charge (but excluding capital costs) at market rates, is expected to be \$34,167 per TV hour, or \$79,547 per OB day. (These hours include OB production of the South Australian National Football League, but these broadcasts will no longer be commissioned, significantly reducing the demand in that state for an OB Van and associated support.)

In 2006, KPMG reported that ABC’s ownership of OB facilities, including vans, was contradictory to the industry trend which saw many commercial networks and Fox Sports entering into long term contracts with external suppliers of OB equipment.¹⁷

The data suggests that there could be savings arising from the ABC outsourcing all its OB vans. Based on discounting the market rate for facilities by 50% (given the amount of demand and lease back of the facilities after sale), this may result in \$0.1 million favourable in operational expenditure.

Outsourcing OB vans will increase the variability of the ABC’s expenditure, providing greater fiscal efficiency and allowing it to adjust to changing economic environments.

Findings

Should the ABC move to fully outsourced OB van use, there is a possible savings of up to \$0.1 million in operational expenditure. The sale of six OB vans and associated facilities could also provide additional capital.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC-OB Vans	-	-0.1	-

3.3.5 Helicopters

The ABC leases a helicopter in Sydney and owns a helicopter in Melbourne, which are used for news and current affairs reporting. Helicopter use by other states and territories is on an ad hoc basis. On average, for every flight hour, 10 minutes of footage is used in a bulletin or program.

The ABC outsources pilot and management arrangements, but is responsible for operational costs of fuel, maintenance, capital replacement and insurance. The contract requires a 365 day pilot roster in Sydney and Melbourne, management and oversight of capital and maintenance, training and safety.

¹⁷ ABC Funding Adequacy and Efficiency Review, KPMG, February 2006, p 217.

The ABC's total helicopter budget for the 2013-14 financial year is \$1.5 million. Currently, the ABC budgets for approximately 800 hours of helicopter time p.a., with 660-700 hours projected for 2014. In the 2012-13 Budget, ABC, Seven, Nine and TEN received total funding of \$53.5 million over four years for the replacement or modification of a range of newsgathering and outside broadcasting equipment to assist them in relocating their electronic news gathering (ENG) functions to alternate spectrum in order to free up spectrum in the 2.5 gigahertz band for next-generation communications.¹⁸ To upgrade a helicopter in Sydney and Melbourne to accommodate ENG functions is estimated to cost approximately \$260,000 (GST exclusive), which includes equipment and installation.

Savings could be achieved through:

- terminating its helicopter contract for pilotage and operations in Sydney and Melbourne, sell its Melbourne helicopter and use helicopters in these cities on an ad hoc basis, or
- retaining its helicopters in Sydney and Melbourne and enter into a sharing arrangement with another network where pilotage and operating costs could be shared.

In the first option, should the ABC terminate its Sydney helicopter lease and its pilotage contract early, payout of the remaining two years of the contract may be required, estimated at \$1.1 million p.a. with a repayment period of two to three years.

Findings

If the ABC decides to terminate its pilotage and operations contract, \$0.5 million would be required for the purchase of helicopter footage. Based on current market estimates, a \$0.5 million budget and directly engaging helicopters would allow the ABC to purchase 220 hours of footage. Purchasing helicopter footage through a third party may yield a higher number of hours.

Of the total helicopter budget of \$1.5 million, minus \$0.5 million for the purchase of footage, an ongoing saving in the order of \$1.0 million may be possible. An additional one-off saving of \$0.7 million could be realised if the Melbourne helicopter was sold at its current book value (\$0.7 million). This saving may be reduced or negated should payout of the pilot's contract be required. A further saving of approximately \$260,000 may be possible if funds for ENG function upgrades have not been committed.

Alternatively, if the ABC were to share operating costs with another network in both Sydney and Melbourne, under the second option, then a potential lower saving of up to \$0.8 million might be

¹⁸ *Portfolio Budget Statements 2012-13: Budget Related Paper No. 1.3*, Broadband, Communications and the Digital Economy Portfolio, p 6.

realised, without necessarily impacting the ABC’s access to quality footage. The study considers the first option to be preferable.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	2.2	-1.0	-0.7

3.3.6 Sale of Lanceley Place

The ABC currently occupies 2-8 Lanceley Place in Sydney. The book value of this property, as valued 31 March 2013, is approximately [REDACTED] inclusive of land, buildings, fit-outs, and value of site improvement. Approximately 30 ABC FTE work at Lanceley Place in the following functions:

- OB vans
- Field Operations
- Disaster Recovery
- Audio post production
- Costume hire

One OB van, semi-trailers, and several trucks are parked at Lanceley Place. In addition, ABC’s Sydney-based helicopter lands and is stationed at Lanceley Place.

Findings

A significant capital saving may also be achieved through the sale of Lanceley Place, which has a value currently estimated at approximately [REDACTED]. Any such sale would need to accommodate the relocation of 30 FTEs to the Ultimo facility at an estimated cost of \$0.6 million. In addition, a detailed feasibility study would be required to assess costs associated with refurbishing Lanceley Place for sale, preparing a new location for or disposal of the ABC’s Sydney-based helicopter and costs associated with housing or disposal of OB vans and other vehicles.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC – Lanceley Place	0.6	-	[REDACTED]

3.3.7 Treatment of shift work under Enterprise Agreements

The ABC, and to a lesser extent SBS, have a substantial number of staff operating in shifts and working overtime. The ABC has a minimum shift of 7.6 hours for non-rostered staff and four hours for rostered staff. SBS has a minimum shift of three hours for all roles. Fewer hours per minimum shift period may provide more flexibility and reduce salary costs. The ABC's current Enterprise Bargaining Agreement was recently negotiated.

SBS's current enterprise agreement with staff expires on 5 December 2014. The renegotiation process will commence in May 2014, with the general aim to introduce greater flexibility in the deployment of labour resources and improving workforce productivity. In prior negotiations SBS has achieved a number of outcomes, such as a three hour minimum shift and no increase in the Enterprise Agreement for unsatisfactory performance.

Findings

The study observes that some efficiencies in roster systems may be obtained through a renegotiation of Enterprise Agreements, but these are not able to be costed. However, given the currency of the ABC agreement, a reinvestigation of the ABC's current agreement is not possible at this time. SBS's renegotiation of the Enterprise Agreements, may achieve efficiencies in the delivery of their services

3.3.8 Pay and conditions: Superannuation and ComSuper management fees

As government agencies, the majority of ABC and SBS employees are members of various Public Service Superannuation schemes. Similar to a number of government agencies, the ABC (and to lesser extent SBS) has a significant proportion of staff who are members of the more generous defined benefit PSS and CSS schemes.

These schemes currently have superannuation employer contributions of approximately 17% to 20%, which is considerably higher than those contributions being made by the commercial sector. For example, the ABC is incurring an additional cost of approximately \$36 million above the superannuation guarantee, with the majority of this cost related to employees who are members of a defined benefit scheme.

Findings

Potential efficiencies may be gained over time from transitioning staff from a defined benefit scheme to an accumulation benefit scheme, but the study has not been able to cost these. However, any such transition would require some form of incentive and would need to be voluntary. In such circumstances the ability to extract efficiencies is limited.

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

3.3.9 ABC local radio stations

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

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

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

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

- existing and future population/demographics

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

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

Findings

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

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

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

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

3.3.10 Rostering process and outsourcing payroll

SBS

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

ABC

The ABC currently has 22.7 FTEs working within its Human Resources Operations who are responsible for processing payroll input and output, superannuation and managing the Employee Self Service (ESS), roster and entitlements system maintenance. These staff serve 4580 FTEs across 60 sites. Of these 22.7 FTEs, five FTEs are directly related to payroll and entitlements.

Should the ABC outsource its payroll and scheduling functions, it is estimated that this would be at a cost of approximately \$2.3 million (excluding potential inflation or price changes) in the financial year of its implementation. This cost includes the initial outsourcing costs and assumes that five FTEs in Human Resources Operations are retained as in-house payroll and entitlements experts¹⁹ to address a potential concern that specialist staff within the ABC would need to act as advisors for pay and entitlements for all staff and managers and liaise with the entity processing payroll and adjustments.

Findings

Based on the FTE reduction, the ABC may achieve potential savings estimated in the order of \$1.1 million in subsequent financial years, minus any transition costs, take-up fees, implementation fees or any other expenses incurred in transitioning to outsourcing arrangements. Salary increments or changes to enterprise agreements have not been factored into these potential savings.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	2.3	-1.1	-

3.4 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

¹⁹ Rates incurred by SBS in outsourcing its payroll and scheduling functions provided the basis for calculating this cost to ABC. A historical average redundancy payment of \$125,000 per FTE was provided by the ABC.

explored. This section outlines the efficiencies that may generate additional revenue for the broadcasters.

3.4.1 Advertising on SBS

The 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.²⁰ The five minute statutory restriction imposed on SBS hampers the broadcaster’s ability to generate revenue from advertising. When compared to commercial TV broadcasters, SBS can only schedule one-third of the amount of non-program matter in the prime time period that attracts the greatest number of viewers.

This statutory limit contrasts with advertising limits established by a code of practice for commercial TV broadcasters. Outside election periods, the *Commercial Television Industry Code of Practice* allows for up to 15 minutes per hour of non-program material between 6pm and midnight on primary channels, but with no more than 14 minutes scheduled in any four of those hours.²¹ At all other times 16 minutes per hour is permitted. The code also restricts the commercial broadcasters to an average of 13 minutes of non-program matter between 6:00 pm and midnight²², and 15 minutes at other times on their primary channels.²³ The commercial broadcasters can schedule a maximum of 15 minutes per hour of non-program matter between 6:00 pm and midnight and up to 16 minutes at all other times on their non-primary channels.²⁴

Over the course of the 2012-13 financial year, Seven, Nine and TEN earned \$3.8 billion in revenue from advertising. By contrast, SBS earned approximately \$50 million from TV advertising over the same period.

[REDACTED]

²⁰ *Special Broadcasting Service Act 1991*, subsections 45(1) and (2).

²¹ *Commercial Television Industry Code of Practice*, July 2013, Section 5.7

²² *Commercial Television Industry Code of Practice*, July 2013, Section 5.6.1

²³ *Commercial Television Industry Code of Practice*, July 2013, Section 5.6.3

²⁴ *Commercial Television Industry Code of Practice*, July 2013, Appendix 6, Section 5.2

The study considered that there was scope for the SBS to increase its revenue under a more flexible advertising regime. For example, SBS presently has a very strict restriction of five minutes per hour, with no ability to transfer minutes from one hour to another. A more flexible approach of an average of five minutes per hour across a day or part of a day, would allow SBS to maximise its advertising revenue during peak viewing times and during highly popular programs.

In summary, a more flexible approach to advertising could allow SBS to increase its revenue through one or more of the following:

- Averaging advertising minutes across the schedule

Increasing advertising minutes during peak viewing times, for example, specifying a total maximum of 90 minutes of advertising and sponsorship over the 18-hour 6am to midnight period, with a maximum of 10 minutes in any given hour, could increase advertising revenue on SBS ONE by a conservative estimate of ██████████ in the first year and ██████████ in the years thereafter. This would not increase the overall level of advertising permitted on SBS ONE.

- Increasing advertising time during sporting events to a maximum of 10 minutes per hour

SBS's limited capacity to earn revenue from sporting events such as the FIFA World Cup or the Tour de France restricts SBS's ability to compete for sporting rights. Doubling advertising time to ten minutes during sporting events could increase revenue on SBS ONE and SBS 2 by approximately ██████████ p.a. Similarly, this would not increase the overall level of advertising on SBS ONE.

- Introducing branded content and sponsorships within particular programming genres, such as food and sport

A significant portion of SBS's prime time schedule is acquired content or content, such as *Insight*, that does not lend itself to integrated branding. Commissioned food and sport programming or other in-house productions could provide opportunities for branded content. Approximately 480 hours of commissioned or in-house programming could generate incremental revenue of approximately ██████████ p.a.

If all options are implemented together, the study estimated that an additional ██████████ of gross advertising revenue would be collected in the first year and ██████████ p.a. in subsequent years. These options are not mutually exclusive and the study considers the above estimates of additional advertising revenue to be conservative. This increase represents only 0.4% of the total free to air advertising revenue pool,

The study noted that changes to the SBS Act would be required to enable SBS to change its approach for TV advertising, specifically averaging advertising minutes across the schedule, which is currently precluded. While in-program sponsorship or product placement does not appear to be precluded in

the SBS Act, minor changes to specifically permit the broadcast of this material would allay any possible concerns over the use of this type of advertising.

Providing advertising flexibility may provoke a negative reaction from commercial broadcasters who may be unlikely to welcome increased competition for advertising revenue from the hybrid-funded SBS and the further fragmentation of the television advertising market. Some community groups, may also oppose any further changes to advertising content on SBS, citing risks to the amount of Charter-related content (for example, Language other than English (LOTE) programming), risks to independence, and the decrease in distinctive content in favour of a broader, more populist schedule.

Findings

While advertising flexibility is likely to result in an increase in revenue of [REDACTED] in year one), the actual amount of additional funds is estimated to be approximately [REDACTED] [REDACTED] in year one) taking into consideration agency commissions (approximately 10% of revenue) and an allowance for additional marketing FTE and associated costs.

Should there be a greater proportion of SBS’s ongoing funding being sourced from more variable commercial revenues, there will be greater pressure on SBS management to consider the trade-off of delivering on commercial expectations, against delivering those functions described in the SBS Charter.

Given the hypothetical nature of the options to increase advertising on the SBS, the study considers additional work should be undertaken by SBS to confirm the potential savings and to consider the implications on its base funding level.

The table below incorporates the proposed additional revenue anticipated in subsequent years of [REDACTED] p.a. following the lower amount estimated for the first transitional year.

The study notes that implementation of this efficiency would require legislative change.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
SBS	-	[REDACTED]	-

3.4.2 Sale and lease back of property

Both the ABC and SBS own offices in Sydney: Ultimo (ABC) and Artarmon (SBS).

The ABC currently occupies approximately 48,923 square meters of office space in Ultimo. SBS currently occupies approximately 20,000 square meters of office space in Artarmon. SBS also owns 5,700 square meters of office space at the same location which it leases out, generating approximately [REDACTED] per year. These land and buildings are unencumbered.

The sale and lease back of ABC and SBS offices in Sydney and the impact on cost savings has been investigated. The financial analysis revealed that no cost efficiencies would be achieved if this were to occur.

Findings

A comparison of the cost per square meter for each national broadcaster to maintain its properties to the average market dollars per square meter for Sydney, including the cost of capital, indicate that, whether assessed by yield analysis (8%) or by a per square meter rate, the negative costs of \$10 million to \$23 million for ABC and [REDACTED] to [REDACTED] for the SBS do not support the sale and leaseback option.

A similar analysis (which the study has not undertaken) may produce different results for smaller, less specialised offices in Perth, Adelaide and Hobart, making it possible for property to be sold and alternative office space rented elsewhere. An alternative strategy, involving the rental of surplus office space is examined in the section below.

3.4.3 Rental of smaller properties

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 properties and considered the option of renting out surplus space at each location.

For each location, the study:

- obtained the estimate headcount and calculated the total 'required space' on the assumption that each staff member would require a minimum of 16 square meters²⁵
- calculated the total 'used environment' by aggregating meeting room areas, office areas, and other areas (archive, storage, etc.)
- calculated 'surplus space' as the difference between 'used environment' less the 'required space'

²⁵ *Commonwealth Property Management Guide*, January 2010, footnote 4 p 11.

The table below displays the surplus space identified for each location.

Location	Total used environment	Headcount	Ideal SQM per headcount	Required space	Theoretical surplus space
Brisbane	7,157	272	16	4,352	2,805
Collinswood	16,050	295	16	4,720	11,330
East Perth	6,453	183	16	2,928	3,525

The study also conducted research to determine the rental rate per square meter at each of the locations. ABC offices in Brisbane and Perth are in prime locations and would be expected to achieve a good return. The Adelaide office is older and may have a lower return than market rates. The conservative rental estimates for the three locations, with an additional 20% deducted from the Adelaide rental rate to factor in the age of the building, provided a conservative estimate of the potential rental return.

The table below provides the resulting rental rates for the analysis and the potential rental return on surplus space.

Location	B Grade Buildings - Rental Rates (\$/sqm)	Theoretical surplus space	Potential rental return on surplus space (\$)
Brisbane	490	2,805	1,374,450
Collinswood (discounted by 20%)	224	11,330	2,537,920
Perth	486	3,525	1,713,150
		Total	5,625,520

The refurbishment cost to prepare the surplus space for leasing was also estimated. The ABC properties at Brisbane and Perth are near new and do not require extensive refurbishment, however, the Adelaide property is older and may incur higher refurbishment costs. As a

conservative approach, and based on quotes obtained from commercial websites that provide fit-out services, the study applied \$400 per square meter of surplus space for the Adelaide offices and \$300 per square meter for the Brisbane and Perth offices. The table below presents the total cost of refurbishment.

Location	Per sqm cost of refurbishment for rental	Theoretical surplus space	Total cost of refurbishment
Brisbane	300	2,805	841,500
Collinswood	400	11,330	4,532,000
East Perth	300	3,525	1,057,500
		Total	6,431,000

Findings

The study finds that should the ABC decide to rent the surplus space at their offices in Adelaide, Brisbane and Perth, approximately \$6.4 million would be required in the first year of implementation in order to prepare surplus space for rental. Subsequent returns have been estimated at approximately \$5.6 million.

The study calculated cost of refurbishment based on the surplus space. There is a possibility that the remaining spaces in the offices may also need refurbishment to accommodate ABC staff who move to these spaces. This may result in additional refurbishment costs.

These results suggest that this option is worthy of more detailed analysis, which would need a much deeper consideration of the property market and the input costs. The study therefore suggests that, should this option be considered, a detailed feasibility study be undertaken to obtain a more accurate estimate of costs and savings associated with preparing and renting surplus space.

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
ABC	6.4	-5.6	-

3.5 Better resource allocation

The study identified a range of areas where the broadcasters could achieve efficiencies by modifying the way they delivered services or reducing the resources allocated to a particular service in line with changes in demand. This section explores these areas.

3.5.1 Role of ABC State and Territory Directors

In 2006, State and Territory Directors were part of the Strategy and Communications Division and reported to the Director of Strategy and Communications. Their role at that time was ‘stakeholder liaison with State and Territory politicians as well as advancing ABC’s role in emergency services and developing cross-divisional collaboration’²⁶. Previous to the creation of State and Territory Directors in 1996, the most senior representative of one of the major output divisions would fulfil this role.²⁷

State and Territory Directors (equivalent to 16.8 FTEs) are located in Corporate Affairs with an operating budget of \$2.79 million. Their current duties and responsibilities include leadership roles, stakeholder management; emergency coordinator for each State and Territory; Chair of management committees (WHS committee, State Executive, Indigenous Working Groups); manage accommodation issues; WHS and risk management, including conducting WHS assessments and identifying and managing cross-divisional risks; coordinate branch-wide activities to build a positive culture within ABC and engage with communities (for example, conducting Feedback Forums).

The study questions the need for specific State and Territory Directors in the modern ABC. It should be possible to reduce the role of State and Territory Directors, with this function resting within existing roles in the ABC, in Melbourne and Sydney. The ABC would require more information on budget and FTE breakdown per State to undertake this analysis.

Findings

Should the ABC abolish the position of State and Territory Directors and absorb their duties in other positions within ABC management, a potential savings of up to \$2.8 million could be realised, minus any transition costs. The ABC would need to model the ratio of State and Territory Directors to the total FTE per branch.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	2.1	-2.8	-

²⁶ ABC funding adequacy and efficiency review. KPMG. February 2006, p 246.

²⁷ ABC funding adequacy and efficiency review. KPMG. February 2006, p 255.

3.5.2 Centralised ABC switchboard

The ABC operates individual switchboards in each state. Twenty-six FTE's spread across each state and territory are categorised as 'Switchboard', which may also include front desk/reception functions across extended hours of operation. Hours of reception and a front desk presence would depend on the level of production activity in that location. In 2013-14 financial year, the costs of these 26 FTEs total \$1.6 million p.a.

Savings may be possible if ABC were to convert to the use of a centralised switchboard in Sydney, with evening operations moving to a Perth-based switchboard to take advantage of Perth's two to three hour delay.

Transition costs to a centralised switchboard have been modelled based on an estimated cost of \$1.9 million for the redundancy payment of 15.1 FTEs (an average redundancy of \$125,000 per FTE) and a payback period of approximately three years. Centralising switchboard services in Sydney may require an additional five FTEs and centralising evening switchboard operations in Perth would require an additional two FTEs. This modelling does not include any additional infrastructure that may be required to increase technical capacity in these locations.

Findings

Potential savings may be achieved in the short term through the use of a centralised switchboard in Sydney and a centralised evening switchboard in Perth.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	1.9	-0.9	-

3.5.3 Shortwave radio: Radio Australia and Outback Radio

The ABC broadcasts Radio Australia shortwave services through two domestic transmitter sites and from three overseas shortwave facilities. In addition, Local Radio is broadcast on three High Frequency (HF) short wave services in Alice Springs, Tennant Creek and Katherine. These HF services are known as Outback Radio and broadcast into remote areas of the Northern Territory. As the Radio Australia shortwave contracts are currently being renegotiated, the ABC is undertaking a strategic review of the continued application of shortwave distribution.

The services are described in more detail below.

In contrast to the Australia Network television service which is funded under contract by the Department of Foreign Affairs and Trade (DFAT), Radio Australia is a core ABC service which is funded through ABC base operating funds.

Radio Australia services

Radio Australia is distributed via both shortwave services and local FM retransmission sourced from the Australia Network satellite feed. If shortwave is terminated Radio Australia would continue to be broadcast on the FM retransmission. However, it should be noted that the current distribution of signals for FM retransmission relies on the Australia Network satellite service.

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.

Offshore Radio Australia transmission services

Shortwave relay services to broadcast Radio Australia content off shore are provided through year to year contracts with Babcock Communications. [REDACTED] These services are currently located at three sites: Singapore, Palau and the United Arab Emirates. All three provide coverage to the Asia region, specifically Myanmar, Laos, Cambodia, Vietnam, Malaysia, Indonesia and China.

ABC has estimated the total costs for the offshore shortwave transmission of Radio Australia in financial year 2013-14 as [REDACTED].

Outback Radio – Alice Springs, Tennant Creek, Katherine NT

ABC local radio content from the Darwin and Alice Springs studios are broadcast by shortwave services to remote areas in the Northern Territory and sections of the Timor Sea. [REDACTED]

There is no measurement of listener engagement with these services in the data provided by the ABC.

Findings

Noting shortwave is largely a superseded technology, potential savings of up to [REDACTED] p.a. may be achieved by discontinuing Radio Australia shortwave radio services. Radio Australia would continue to be broadcast in target countries through FM retransmission sourced from the Australia

Network satellite feed or its equivalent. Based on current usage, the distribution of the Radio Australia signal by satellite is estimated at \$0.2 million p.a., including satellite capacity and uplink costs.

If the ABC was to maintain the current breadth of coverage for Radio Australia provided by shortwave, a body of work to increase FM transmission through partnerships in Myanmar, Bougainville, Manus and Western Province would need to be undertaken. This work would need to be undertaken in consultation with DFAT to ensure that regional and local sensitivities are taken into account. This would impact on the savings achievable and wider strategic issues would dictate the timing of this change. In addition, should the Australia Network satellite service not be available, other feed arrangements would need to be purchased.

An additional potential saving of up to [REDACTED] from discontinuing shortwave transmission of Outback Radio may be possible. However, Outback Radio particularly covers the remote areas of Australia that may be of value to those communities. The study understands that the ABC believes there is merit in maintaining this service until an alternative can be sourced.

	Implementation (one-off cost) \$m	Efficiency (ongoing) \$m	Capital Saving \$m
ABC	-	[REDACTED]	-

3.5.4 ABC commercial: Digital Projects and ABC retail

ABC Commercial is responsible for the management of a range of media businesses which create, licence and market products and services related to the programming and Charter activities of the ABC. The ABC’s Retail and Digital Projects are currently operating at a loss and are anticipated to deliver a combined negative return of \$4.5 million in 2013-14, which is expected to be eliminated over three years.

The study considered the ABC’s retail operations and noted that an immediate closure of these services would incur an implementation cost of approximately \$40 million in the first year, including costs associated with retail staff redundancies, termination fees for property leases and disposing of store inventory. In addition, the closure of the retail network would also have a negative impact on other ABC Commercial Wholesale and Distribution businesses particularly Video Entertainment and Distribution, Publishing, Licensing, Music, Events and Direct Sales.

The study notes that the ABC undertook a comprehensive review of its retail operations in 2013 and is acting to close 12 (out of a total of 52) underperforming retail outlets. As a result of this action, the ABC anticipates that its retail operations will break even this financial year and return to

profitability by 2015-16. In addition, the Digital Projects business is currently developing a range of digital products expected to generate profits over the next two to three years.

Findings

At a high level, the study notes that there is a view that provision of retail services is not, on the face of it, a core responsibility of a national broadcaster. Despite this, retail activities are deeply 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 considered that the ABC's actions to reduce its exposure in this area are timely and that the total closure of its retail operations would require a substantial investment of resources. While the ABC is projecting that its retail business will return to profitability, it should consider further reducing its levels of risk by entering MOU agreements with existing distributors, expanding its online retail platform and further reducing its direct management of retail outlets. Technology trends clearly suggest that over time investments in 'bricks and mortar' shopfronts should continue to be shifted more towards online distribution methods.

In addition, the Study considers that the ABC's predictions and timeframes for achieving increased revenue may be ambitious and that the ongoing future of the ABC's retail operations should be reviewed again in three to four years.

	Implementation \$m	Ongoing Saving \$m	Capital Saving \$m
ABC (short term)	-	-2.2	-
ABC (long term)	-	-2.5	

3.5.5 ABC communications networks

The ABC's transmission and distribution networks are supplied through contracts with external providers, such as Broadcast Australia.

The ABC currently employs 24 FTEs in its Communications Networks Department. Of these FTEs, 11.6 FTEs assist to manage contracted services relating to more than 650 analog radio transmitters across Australia, digital radio transmission and distribution, more than 420 digital TV transmitters (including work to restack of digital channels), and satellite distribution and fibre distribution costs.

Given that the switchover to digital-only broadcasting has occurred and that switchover elements of this work will no longer be required, and restack will be complete by December 2014, it may be possible for the ABC to reduce its staffing in this area.

Findings

The ABC could investigate reducing staff in this area by four FTEs, it may be possible to realise a potential savings of approximately \$0.5 million p.a. after redundancies (estimated at \$0.5 million) have been recouped in the second financial year after implementation. This reduction is based on a comparison with resources allocated to these activities by commercial broadcasters.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	0.5	-0.5	-

3.5.6 Production resources

The ABC is currently undertaking a project to devolve ABC Resources (which provides technical and production support) into TV and News and Current Affairs based on current allocation, called 'Vertical Integration'. This will allow both productions divisions to directly control the use of all resources for production which is expected to deliver improved resource utilisation and savings over time. The study supports this initiative and considers it will generate improved control of resources.

ABC News currently has 1,401^[1] FTEs representing both editorial (journalist, producers, presenters) and resources (camera, graphics, studio operators) operators. The 1,401 staff are located across capital cities, states and territories, 52 ABC regional offices and 12 overseas bureaux.

News staff are responsible for the creation of:

- approximately 12,700 hours of first run television and radio news bulletins
- 1,540 hours of first run current affairs hours
- 6,500 hours of first run News 24 hours (the total of News24 output is 8,690, the remaining 2,190 is acquired from Aljazeera and BBC)
- an estimated 600-700 hours per day of news online (including, text, audio, video), receiving over 7.6 million unique visitors per month.

^[1] The 1,401 News FTEs does not include 80 FTEs from APNC – the APNC FTEs were considered as part of the review of Australia Network as they provide content specifically for International audiences.

FTEs in state and territory news rooms are responsible for producing localised and network news content across all platforms.

In order to estimate the level of savings the ABC may expect to achieve through implementing its Vertical Integration project, or by benchmarking practices against production divisions in alternative networks, the study undertook a review of ABC News' operations with a comparable five capital city network, including radio operations, adjusted for the additional state and territories the ABC operates.

While the comparison represents an approximation of the ABC News operations by developing a comparable modelled network, it suggests that the ABC may be able to achieve a reduction of up to 45 FTE whilst maintaining the current output levels and local presence.

Findings

Based on a comparison to the news production divisions in a comparable network, it is possible that the ABC could achieve savings of up to 45 FTE from the implementation of Vertical Integration project or by benchmarking against other networks, producing savings up to \$5.1 million p.a. whilst maintaining the current output levels and local presence.

	Implementation (one-off cost)	Efficiency (ongoing)	Capital Saving \$m
	\$m	\$m	
ABC	5.6	-5.1	-

3.5.7 ABC Open

ABC Open is an initiative for Australians in regional communities to develop digital media skills and use them to produce and publish photos, stories, videos and sound through the ABC. The ABC Open website collects all contributions from which content is selected and distributed across a range of ABC platforms including a weekly segment on ABC News 24, ABC 1, Australia Network, regional Local Radio, ABC websites and through social media.

ABC Open producers are located in regional communities around the country, where they promote digital literacy and help them to create, collaborate and share stories with wider Australia.

In 2012-13 ABC Open producers provided 2,515 multimedia training workshops and mentoring sessions in regional communities to more than 12,100 people aged between 15 and 80 years. Since the website launched in September 2010, over 49,500 contributions have been published.

In the 2009-12 triennium, the ABC received \$15.3 million over three years to establish 50 enhanced ABC Local Broadband Hubs in regional Australia and develop ABC Open. This funding is ongoing and indexed. The ABC currently spends approximately \$8.3 million per annum on the initiative.

Findings

ABC Open receives significant ongoing resources. ABC Open's public performance measures (e.g. in its annual report) seem to show reasonably large volumes of community input and engagement but the strategic integration with wider ABC activities is not clear. The study observes that the ABC has many ways of engaging with the community across its platforms including its online services. The origins of ABC Open – as part of a series of initiatives to explore and demonstrate innovative ways of engaging communities through broadband - may lead the ABC to continue to consider that funding is tied to a particular set of activities, resulting in a sub-optimal allocation of resources to achieve its objectives. The study suggests that the ABC consider reviewing the ABC Open project with a view to considering its role and strategic integration with wider ABC services, which may lead to opportunities to consider efficiencies in its activities, including ceasing training activities which could be provided by the market. The study has not identified a quantum of efficiencies to be targeted.

4 Other findings

The study considered that the current breakdown of corporate wide costs raised concerns. Specifically, it was difficult to estimate the overall cost of a service on location due to a range of unallocated costs. On reflection, the material size of ABC's Corporate Wide cost centre may distort the efficient allocation of resources within the organisation, which could inhibit transparency and accountability.

SBS's budget includes a material sum for this activity, but does not have a similar corporate wide cost centre of the scale of the ABC.

4.1.1 Observations on amortisation policies

ABC

TV programs are produced for domestic transmission and include direct salaries and expenses and production overheads allocated on a usage basis to the program. Production overheads not allocated to programs are expensed in the period in which they are incurred. External contributions received in respect of co-production of TV programs are offset against production costs which are recorded as inventories in the Balance Sheet.

The cost of produced television program inventory is amortised as follows:

- News, Current Affairs and Live Programs - 100% on first screening
- Factual and Entertainment programs based on current topics - 100% on first screening

- Childrens, Education and Movies - straight line over three years from completion of production
- All other programs not covered above - 90% first screening and 10% second screening or in third year
- Programs not shown within three years of completion or purchase to be amortised 100% in year three

The costs of programs produced for radio are expensed as incurred. Such programs are normally broadcast soon after production; stock on hand at any time is minimal.

Purchased program inventory is amortised as above or over the rights period of the contract (whichever is the lesser).

SBS

SBS Program costs are also capitalised as inventory and amortised over time to reflect their expected usage. Program acquisitions are amortised on a straight line basis over the shorter of three years or license period (for movies), or over the shorter period of two years or license period (for documentaries and other overseas purchased programs). Commissioned programs are valued at cost, and amortised on a straight line basis over the shorter of four years or license period.

Some programs are fully amortised in the current period. All internally produced news and current affairs programs, as well as sports events, are expensed immediately at the time of broadcast.

An annual review of all programs is undertaken at the end of the reporting period. Programs which are not expected to provide future benefits are written down.

Findings

Amortisation schedules vary across ABC and SBS, with a particularly long timeframe for SBS. The ABC and SBS may wish to consider adopting a consistent approach to amortisation for comparable program assets, as this would improve comparability and transparency between the two organisations' cost structures.

4.1.2 Observations on facilities charges

To ensure a transparent understanding of all program costs, the study suggests that all internal facilities and labour should be charged by the Facilities departments to the individual programs or cost units requesting the services. These charges should be included in the financial records for each division and reported on in the monthly management accounts as primary financial records and not as subsidiary information. For example, currently only labour charges are recovered in the ABC management accounts. Undertaking the same charges for equipment utilised by a program as is done for labour used by the program, will ensure the program maker is held accountable for the total cost of the program not just some elements of the program cost. In addition, the Facilities department is also held accountable for the net cost or contribution based on their level of activity.

4.1.3 Observations on cost centre structure

Many organisations arrange their chart of accounts to reflect the specific operations of the individual divisions of the organisation. Where possible standardising the cost units (e.g. administration, managerial) across the organisation allows for easy comparability across the whole organisation and assists senior management in understanding the level of division specific costs and more general organisation or managerial costs. For example a standard cost unit across all divisions for administration or managerial costs would aid in quickly monitoring these overhead items separately from activity based costs. The study suggests that this structure could assist with fiscal responsibility and transparency of costs within the organisations.

4.1.4 Observations on personnel costs

ABC

The ABC's Internal Budget and Reporting Division uses the grouping 'Salaries' for salary and on-costs paid through the payroll system. Costs related to clothing, professional memberships, parking and FBT are budgeted and reported as an expense. Annual financial statements report FBT and other employee related costs under 'Employee Benefits'.

Where ABC staff have elected to salary sacrifice, there is no impact to salary and on-cost charging in the Finance systems. The payroll system redirects some pre-tax earnings for the employee into an outsourced salary sacrificing arrangement and all costs, including FBT, are met through this arrangement.

The study notes that it may also be worth investigating the possibility of removing restrictions around retaining injured employees who are not medically capable of performing the requirements of their position. This restriction has an impact on the ABC's ability to manage an agile workforce.

SBS

The SBS chart of accounts is broken into two major cost categories – employee expenses and supplier expenses. All of the direct costs of labour are combined into the Employee expenses major cost category. This includes salaries, overtime, penalty payments, allowances (meals, clothing, travel etc.), annual leave, long service leave and superannuation. This ensures that all costs associated with SBS employees are easily identifiable in the management accounts. Fringe benefits tax is included as an expense in the 'Other Services' cost category.

4.1.5 Executive remuneration

Both ABC and SBS include a pay at risk component to the remuneration structure for the senior executive team. In both cases, fiscal efficiency does not appear to have a material impact on the

remuneration outcomes for the senior team. It may be possible for a significant portion of the pay at risk be dependent on the overall budget outcomes both for the relevant specific unit and overall organisation, to ensure that management focuses on efficiencies both at a local and whole of business level. A portion of savings to budget from this efficiency focus could be used to enhance the remuneration outcomes of the senior team. A change in this structure would need to include some form of averaging over time to ensure that the savings are real sustainable reductions in aggregate expenditures before compensation is distributed to the executives.

4.1.6 Cash management (interest)

Currently ABC and SBS receive their funding incrementally throughout the financial year. For ABC, payments to a total of \$1,053,853,000 for the 2013-14 financial year are made in 27 instalments, with approximately 16% (\$168,989,000) paid in July, 9% paid in December and the remainder paid relatively evenly across the remaining months. For SBS, payments to a total of \$273,000,000 for the 2013-14 financial year are made in 29 instalments throughout the year, with approximately 35.7% (\$97,457,000) paid in July and the remainder spread across the remaining months.

For the year ended 30 June 2014, the ABC recorded interest revenue of \$7,504,000. For the year ended 30 June 2014, SBS recorded interest revenue of \$4,331,000.

The impact of the scheduled payments on the interest revenue of SBS and the ABC was investigated. To identify the cost impact of the arrangement, the study undertook the following:

- obtained the drawdown schedules of Commonwealth payments made to the ABC and SBS
- assumed that the total amount of Commonwealth funding would be spent by the end of the financial year, and evenly across twelve months
- modelled and compared the interest revenue that would be achieved assuming an interest rate of 3.50% (reflecting the current RBA cash rate) for two scenarios:
 - the current drawdown schedule
 - a scenario whereby Commonwealth funding would be paid in full at the beginning of the year.

This analysis is included to demonstrate that a different drawdown arrangement could have positive benefits for the ABC and SBS. However, the study acknowledges that the option considered would be unlikely to be considered favourably by the Government.

Nevertheless, the study observes that the ABC and SBS would increase their interest revenue if Commonwealth funding was received at the beginning of each financial year. If the ABC and SBS received their full funding at 1 July each financial year, based on their current funding levels, interest revenue received by the ABC could be up to \$20.4 million and interest foregone could be up to \$15.4 million. Interest revenue received by the SBS could be up to \$5.3 million and interest foregone could be up to \$2.3 million.

The ABC and SBS could achieve savings of \$4.1 million and \$1.1 million p.a. respectively net of the amount of revenue lost to the Commonwealth if the funds are centrally retained and drawn down on an as needed basis.

5 ABC and SBS Financial Management and Governance Frameworks

Each broadcaster has established a robust governance framework that is fit for purpose and satisfies their statutory obligations under the *Commonwealth Authorities and Companies Act 1997*²⁸ (CAC Act) and the *Australian Broadcasting Corporation Act 1983* (ABC Act) and *Special Broadcasting Service Act 1991* (SBS Act).

The budget and governance frameworks for the ABC and SBS are summarised in **Appendix D** and **E** respectively. The following section focuses on aspects of the frameworks that relate directly to promoting improved financial decisions, providing transparency between government and the broadcasters on the basis of those decisions and the national broadcaster creating processes and incentives to identify efficiencies on an ongoing basis.

5.1 Observations

Both organisations have established strategic planning processes that originate in a corporate (or strategic) plan and flow into business plans at the Division level. However, there is a clear difference between the ABC and SBS in the degree of integration of these systems with their budget process. While the ABC Managing Director (MD) has required Divisions to identify efficiencies over the last several years as a priority objective and a component of their operational budget submission, the identification of efficiencies does not appear to be systematised in business planning and budget process for the ABC. On the other hand, SBS revised its planning and budgeting process in 2012-13 to establish an integrated process that coordinates setting of strategic direction with identification of efficiencies, setting annual budgets and operational planning. As a result, budget decisions are closely linked to all planning processes; with monitoring and reporting to the SBS management and Board. This process enables the SBS MD and Board to set strategic direction and generate discretionary revenue for expenditure on new priorities. It would be desirable for the ABC to consider establishing a more integrated process which is part of its ongoing budget management and planning strategy. The SBS approach may provide some insights.

²⁸ The *Commonwealth Authorities and Companies Act 1997* will be superseded by the *Public Governance Performance and Accountability Act 2013*, from 1 July 2014.

Budget Process

The study examined monthly ABC Board papers and was of the view that they provided high quality information on the corporation's financial performance, that was both sufficiently disaggregated and that provided a whole of business perspective. These papers would be further improved with the addition of metrics that aligned audience reach with the cost of individual programs, such as cost per viewer.

High Fixed Component for ABC Budget

The study observed the functions of the ABC and the funding of them from year to year experience a high degree of momentum. That is, there is a strong tendency for the ABC to continue functions that it has historically undertaken. At the same time, the Budget committed to these functions utilises most, if not all, of the available budget allocation (i.e. the Budget has a very high fixed component). In some cases, it has been extremely difficult for the organisation to decide to stop an activity. A consequence is that the ABC has little discretionary expenditure to allocate to new priority initiatives. Given the level of audience driven change it will be important that there is a greater level of discretionary funding available to give senior management and the Board the agility and latitude to pursue attractive opportunities as they arise. The organisation's processes for setting strategic direction will need to allow it to identify and prioritise such opportunities. The revision to the ABC's strategic planning process described above could assist to achieve this outcome.

A tendency to continue an activity is also apparent at SBS to a lesser degree. For example, the recent review of SBS's radio schedule did not reduce the number of languages on offer despite small population sizes of some language communities and the availability of other in-language programming.

Fiscal Responsibility

There would be merit in each organisation considering the degree to which fiscal responsibility ranks in their organisational priorities. For example, the ABC's corporate structure does not include a Chief Financial Officer (CFO) as a stand-alone position at the senior executive level. There may be merit in separating this responsibility from the Chief Operating Officer and establishing a separate CFO position to report directly to the MD.

5.2 Interpreting Charter Responsibilities

The national broadcasters have specified roles set for them by the Parliament in their Charters (see **Appendix B** ABC Charter and **Appendix C** SBS Charter). Interpreting these roles and 'converting' them into business plans is an ongoing challenge. The scope of current functions of both broadcasters, as well as requests for additional funding and debates around the 'adequacy' of national broadcaster funding, are often justified in terms of Charter obligations. For example, broadcasters may justify everything from production of Australian drama and major news gathering resources, through to broadcasting of a local sporting competition in a state or region as being consistent with Charter obligations.

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

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

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

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

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

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

²⁹ *ABC Strategic Plan 2013-16: A clear direction for the ABC*, p 2.

³⁰ With the exception of the formal commissioning processes in the Television and Radio Divisions.

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

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

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

5.3 Statement of Expectations

The ABC and SBS are independent corporations created under their respective Acts and the CAC Act³¹. The Parliament has established this independence to make sure that what is broadcast is free from political influence. However, the Minister is accountable to the Parliament for the performance of agencies within his Portfolio and performance relates to many aspects of their operation that are distinct from programming decisions. In the context of this study, the Minister has a responsibility to ensure that public funds allocated to the broadcasters are used effectively and efficiently.

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

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

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

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

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

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

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

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

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

- report annually to the Minister in regard to specified categories of resource allocation
- furnish annually to the Minister their policy regarding the allocation of resources against Charter objectives
- elevate fiscal responsibility in their decision making vis a vis other priorities
- co-operate closely (between broadcasters) to maximize the efficiency of the publicly funded sectors of Australian broadcasting (as identified in the SBS Act³²)
- not enter into contracts for the supply of services which include provisions prohibiting the disclosure of information to the Commonwealth (e.g. transmission service contracts)

³² *Special Broadcasting Service Act 1991*, Section 10 1(f).

- adopt a formal process for identifying efficiencies, including opportunities for sharing resources or functions
- provide regular progress reports to be reviewed by the Department on the progress of various activities, including their response to this study.

5.4 Transparency to Government

The national broadcasters' budgets are published annually in the Communications' Portfolio Budget Statement (PBS). The PBS describes the annual funding provided to each of the broadcasters and any adjustments made by the Government. The PBS divides the broadcasters' activities into Outcomes and these are further divided into Programs. For each Program the PBS describes its objective and deliverables and also lists a series of key performance indicators (KPI). The broadcasters are required to report performance against their KPIs each year in their Annual Reports. The broadcasters are also required to publish a corporate/strategic plan and appear before Parliamentary committees. The observation of the specialist adviser is that this level of public reporting is likely to be greater than the level of public disclosure of a listed public company and provide the public with adequate transparency of the performance of the national broadcasters.

In terms of reporting to the Minister, the boards of both broadcasters must keep the Minister informed of their and their subsidiaries' operations³³. They must also provide the Minister with reports, documents and information in relation to those operations and provide the Minister for Finance reports, documents and information in relation to those operations, which the Finance Minister requires, within the timeframes set by the Minister concerned.³⁴

The Minister has an obligation to keep Parliament informed of the actions of his portfolio, including those of the national broadcasters. To fulfil this responsibility, the Minister relies on the ABC and SBS to provide him with the full disclosure of all of their actions, including details of their commercial arrangements. It is imperative that the ABC and SBS ensure that all commercial agreements acknowledge the Minister's obligation to Parliament and the broadcasters' responsibility to apprise the Minister of their commercial dealings.

³³ *Australian Broadcasting Corporation Act 1983*, Section 31(D); *Special Broadcasting Service Act 1991*, Section 51.

³⁴ *Commonwealth Authorities and Companies Act 1997*, Section 16.

5.5 Delivery of services

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

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

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

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

6 An Ideal Cost Base

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

7 Way forward

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

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

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

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

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

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

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

ABBREVIATIONS

CDN	Content Delivery Network
COO	Chief Operating Officer
DAB	Digital Audio Broadcasting
ENG	Electronic News Gathering
FTA	Free-to-air
GHz	Gigahertz
HD	High Definition TV
IT	Information Technology
IP	Intellectual Property
LOTE	Languages other than English
Mb/s	Megabits per second
MD	Managing Director
OB	Outside broadcast
SD	Standard Definition TV
SoE	Statement of Expectations
TV	Television

Appendix A: ABC and SBS Efficiency Study Terms of Reference

The national broadcasters, ABC and SBS, receive approximately \$1.4 billion in funding a year from the Australian Government. It is a routine responsibility of all Government authorities to use taxpayers' funds as efficiently as possible and to strive for operational improvements, and the broadcasters are no exception.

Parliament has agreed over time to a broad range of responsibilities for the ABC and SBS which are incorporated into their respective Charters. The delivery against those Charter responsibilities, relative priorities and resource allocation are largely at the discretion of the ABC and SBS Board and management. There is limited transparency to the Australian public, the Government and the Parliament of the breakdown of costs of delivering the ABC and SBS Charter responsibilities and whether these could be more efficiently delivered by the national broadcasters.

This study will seek to clarify these costs, provide options for more efficient delivery of services (based on current practice in Australian broadcasting), identify risks and any impediments to change and assist the national broadcasters to continue to deliver their Charter responsibilities in ways that minimise costs and maximise benefits for the Australian community.

The study will focus on the costs of inputs—that is the 'back of house' day-to-day operational and financial operations, structures and processes applied to delivering ABC and SBS programs, products and services. It is not a study of the quality of the national broadcasters' programs, products and services, or the responsibilities set out in their Charters but of the efficiency of the delivery of those services to the Australian public.

Scope

The Department of Communications will conduct the study and will be assisted by Mr Peter Lewis, formerly Chief Financial Officer of Seven West Media Limited. ABC and SBS personnel will also form part of the study's secretariat. It will focus on all ABC and SBS activities, other than those specifically specified as out of scope below, including:

- Television
- Radio (Analog and Digital)
- International services
- Digital services including online and catch-up TV
- Production—including facilities
- Advertising (SBS only)
- Enterprises/retail services
- Corporate overheads
- Asset management and capital expenses.

The study will not be limited to looking at these activities separately, and could also look at outputs on a cross-platform basis i.e. delivery of news and current affairs across TV, radio and digital, where useful.

Out of scope

- Transmission costs, which will be the subject of separate advice to Government;
- Changes to the ABC and SBS Charters;
- Editorial policies of the national broadcasters;
- Allowing advertising on the ABC;
- Quality of programs/products delivered by the broadcasters

Terms of Reference

The study will provide an objective assessment of the efficiency of the ABC and SBS in delivering their services. The study will:

- identify the real current and expected future costs of each output of the ABC and the SBS (as set out in Scope above);
- test those costs against better practice broadcasting operational models and practices and quantify differences;
- identify the options available to the broadcasters to improve efficiencies and the benefits and risks of such options;
- identify any impediments to implementation of such options—this analysis may go to operational, governance, structural, financial and cultural issues within each organisation;
- develop an 'ideal cost-base' for the national broadcasters and compare this with current cost base.

The study will also identify options to improve:

- transparency of the costs of national broadcasting services to maintain confidence in their expenditure of public funds;
- the processes and systems for decision-making across different genres, platforms and priorities; and
- operational governance and management practices/processes of the national broadcasters including ways of enhancing the efficient and transparent management of the organisations.

Without further limiting its scope, the study should:

- consider the return on investment of the public funding for the national broadcasters, including in terms of audience or other usage;
- analyse costs at the level of services (for example, ABC1, ABC2, Radio National etc.); platform (TV, radio, online); audience brands (e.g. ABC 4 Kids, or News); program genre; and in relation to specific Tied Funding such as the National Interest Initiative;
- provide breakdowns of these costs in States and regions, and by audience or user demographic; and

- quantify, as far as possible, the costs of operating at locations across Australia.

In undertaking the task, the study will have regard to:

- the ABC and SBS Charters, legislated obligations and editorial and operational independence from government;
- ratings, audience reach and other relevant audience measures for the ABC and SBS programming;
- changing audience demand, particularly increasing use of catch-up and online services;
- the role of ABC and SBS in provision of emergency services information;
- the geographic spread of services and infrastructure, their importance to communities compared to the costs of maintenance; and
- the relative importance/performance of the ABC and SBS compared to other broadcasting services in local markets.

The report arising from the study will be provided to the Minister and the Chairs of the ABC and SBS on completion.

Appendix B: ABC Charter

Australian Broadcasting Corporation Act 1983 - Section 6 Charter of the Corporation

(1) The functions of the Corporation are:

(a) to provide within Australia innovative and comprehensive broadcasting services of a high standard as part of the Australian broadcasting system consisting of national, commercial and community sectors and, without limiting the generality of the foregoing, to provide:

(i) broadcasting programs that contribute to a sense of national identity and inform and entertain, and reflect the cultural diversity of, the Australian community; and

(ii) broadcasting programs of an educational nature;

(b) to transmit to countries outside Australia broadcasting programs of news, current affairs, entertainment and cultural enrichment that will:

(i) encourage awareness of Australia and an international understanding of Australian attitudes on world affairs; and

(ii) enable Australian citizens living or travelling outside Australia to obtain information about Australian affairs and Australian attitudes on world affairs; and

(ba) to provide digital media services; and

(c) to encourage and promote the musical, dramatic and other performing arts in Australia.

Note: See also section 31AA (Corporation or prescribed companies to be the only providers of Commonwealth-funded international broadcasting services).

(2) In the provision by the Corporation of its broadcasting services within Australia:

(a) the Corporation shall take account of:

(i) the broadcasting services provided by the commercial and community sectors of the Australian broadcasting system;

(ii) the standards from time to time determined by the ACMA in respect of broadcasting services;

(iii) the responsibility of the Corporation as the provider of an independent national broadcasting service to provide a balance between broadcasting programs of wide appeal and specialized broadcasting programs;

(iv) the multicultural character of the Australian community; and

(v) in connection with the provision of broadcasting programs of an educational nature—the responsibilities of the States in relation to education; and

(b) the Corporation shall take all such measures, being measures consistent with the obligations of the Corporation under paragraph (a), as, in the opinion of the Board, will be conducive to the full development by the Corporation of suitable broadcasting programs.

(3) The functions of the Corporation under subsection (1) and the duties imposed on the Corporation under subsection (2) constitute the Charter of the Corporation.

(4) Nothing in this section shall be taken to impose on the Corporation a duty that is enforceable by proceedings in a court.

Appendix C: SBS Charter

Special Broadcasting Service Act 1991 – Section 6 Charter of the SBS

(1) The principal function of the SBS is to provide multilingual and multicultural radio, TV and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia's multicultural society.

(2) The SBS, in performing its principal function, must:

(a) contribute to meeting the communications needs of Australia's multicultural society, including ethnic, Aboriginal and Torres Strait Islander communities; and

(b) increase awareness of the contribution of a diversity of cultures to the continuing development of Australian society; and

(c) promote understanding and acceptance of the cultural, linguistic and ethnic diversity of the Australian people; and

(d) contribute to the retention and continuing development of language and other cultural skills; and

(e) as far as practicable, inform, educate and entertain Australians in their preferred languages; and

(f) make use of Australia's diverse creative resources; and

(g) to the extent to which the function relates to radio and TV services—contribute to the overall diversity of Australian TV and radio services, particularly taking into account the contribution of the Australian Broadcasting Corporation and the community broadcasting sector; and

(h) to the extent to which the function relates to radio and TV services—contribute to extending the range of Australian TV and radio services, and reflect the changing nature of Australian society, by presenting many points of view and using innovative forms of expression.

(3) The principal function of the SBS under subsection (1) and the duties imposed on the SBS under subsection (2) constitute the Charter of the SBS.

(4) Nothing in this section imposes on the SBS a duty that is enforceable by proceedings in a court.

(5) A subsidiary function of the SBS is to carry on, within or outside Australia, any business or other activity incidental to the fulfilment of the Charter.

Appendix D: ABC Budget and Governance Framework

Board and Subcommittees

The ABC Board comprises the Managing Director, the non-executive Chairperson and not fewer than five, nor more than seven non-executive Directors (including the Staff-elected Director). The Board has established three subcommittees, comprising Human Resources, Audit and Risk and Finance.

Except for the ABC's Staff-elected Director, all non-executive directors of the ABC Board have been appointed following recommendations of the independent Nomination Panel, following public advertising and short-listing on the basis of merit. The assessment of the Department's specialist adviser was that the current boards are highly experienced and well-credentialed for their roles.

Executive Committees

The Managing Director meets with all the Division Heads and COO as the 'ABC Executive' (13 in total) each Monday to consider urgent business for the week and also has an extended meeting once a month on longer term issues.

The MD also convenes the Audience Strategy Group monthly comprising the COO and Directors of the content generating Division (News, TV, Radio).

Corporate planning and budget process

The ABC prepares a Strategic Plan in accordance with its obligations under section 31A of the ABC Act³⁵. This must set out the objectives of the organisation, outline its overall strategies and policies to achieve those objectives and fulfil its functions, a forecast of revenue and expenditure, and any performance indicators and targets. The Board may review and revise a strategic plan at any time. As soon as practicable after a Board prepares or revises a strategic plan, it must be provided to the Minister. Ministers are not required to approve these plans, nor table them in Parliament. However, the plans are made publicly available.

The Strategic Plan is used to guide Divisional Planning activities, which in turn guide individual performance objectives. The Strategic Plan is used by each Division to develop a Business Plan that identifies specific and measurable activities that are intended to achieve the high level priorities of

³⁵ In 2010, the ABC renamed its corporate plan a 'strategic plan'. There is no legislative impediment to the alternative name being used, and the current strategic plan includes the following statement "This document is prepared in accordance with Part IVA of the ABC Act and is a corporate plan for the purposes of that Act".

the Corporation. For the previous two years the MD has required Divisions to include an efficiency objective in their Business Plans to achieve annual efficiencies of between 2 and 5 percent.

The ABC Budget process involves preparation of annual operating expenditure and capital expenditure budgets for consideration by the Board in June, with an update in December. The ABC operational Budget process involves overall available resources and cost pressures being determined from a top-down perspective and Divisional business needs, objectives and drivers influencing activity levels, and any additional own-source revenue, being determined from the bottom-up. The ABC states that these two inputs are then interwoven to determine the allocation of available resources.

Each Division is required to prepare an operational budget submission. These are discussed with the COO and MD to justify relative prioritization for bids seeking funding in the budget process. Divisional operational budget requests are then presented to the ABC Executive for consideration and collective assessment of strategic priorities. Where necessary, final decisions are made by the COO and MD.

Divisions are also required to submit separate proposals for capital expenditure. Where a capital proposal has associated operational budget requirements, a separate operational budget submission is required. Each Division prepares a Divisional ICT road map in conjunction with ABC Technology Division, and this, as well as asset replacement and maintenance needs, inform the Division's capital budget submission. Once submitted each Divisional Director presents their bid to the other divisional Directors. The Divisional Directors then participate in a voting round as a group, prioritising proposals by a system of allocating points, which results in a list of final proposals. The ranking of final proposals is then presented to the ABC Executive for final endorsement. Divisional Directors regularly meet with the COO and MD throughout the year to discuss Divisional activities and budget performance. Reports of revenues and expenditure against the approved Budget are prepared for each meeting of the ABC Board.

Risk Management

The ABC established its Enterprise-wide Risk Management Framework in 2007, providing structure for the management of risk consistent with the International Standard - Risk Management (ISO 31000:2009) and the Comcover Better Practice Guide for Risk management (2008). It was last reviewed and approved by the Audit and Risk Committee in 2012.

Audit

Group Audit is the ABC's internal audit department which reports to the Audit and Risk Committee of the Board. Group audit develop the annual audit plan and these audits are delivered through a co-sourced model, involving in-house staff and outsourced external providers.

Delegations

Delegations are clearly described for key roles and provide certainty about authority for decision-making. All expenditure, regardless of the level of delegated authority, must be within approved budgets. Delegations cannot be sub-delegated to any other officer.

Other Governance Functions

The ABC has established a Compliance Framework model detailing internal controls and governance procedures, together with other sources of assurance and information that enable the ABC to submit its certificate of compliance each year to the Department of Finance.

Accountability and Reporting

Annual appropriation from the Commonwealth is set in the Portfolio Budget Statement (PBS). The outcomes description for ABC in the PBS is to inform, educate and entertain audiences throughout Australia and overseas through an innovative and comprehensive media and related services, to provide audience access to ABC satellite and analog terrestrial radio and television (noting that analog television services have now converted to digital-only broadcasting) which is, at a minimum, maintained year-on-year through the management of Transmission Service Agreements, and to provide audience access to ABC digital television and radio services, in accordance with approved implementation policy, through the rollout and maintenance of the associated distribution and transmission infrastructure. For the ABC each of these outcomes is divided into program activities each of which have KPIs.³⁶ ABC's performance against these KPIs are reported annually in its Annual Report, and evaluated as part of its triennium funding submission when it submits its Cost and Performance report to the Minister for Communications.

Equity and diversity annual report

The *Equal Employment Opportunity (Commonwealth Authorities) Act 1987* (EEO Act) requires the ABC and SBS to publish an Equity and Diversity Annual Report to be provided to the Minister within three months of the end of the period to which the report relates, and is required to be tabled in both Houses of Parliament within 15 sitting days of receipt by the Minister.

³⁶ *Portfolio Budget Statements 2012-13, Budget related paper no. 13. Broadband, Communications and the Digital Economy Portfolio*, p 57-76.

Appendix E: SBS Budget and Governance Framework

Board and Sub Committees

The SBS Board of Directors consists of the Managing Director, the non-executive Chairperson and not fewer than three, nor more than seven non-executive Directors. The Board is responsible for deciding the objectives, strategies and policies to be followed by SBS in performing its functions and ensuring in the SBS performs its functions in a proper, efficient and economical manner and with the maximum benefit to the people of Australia (section 9 SBS Act).

The SBS Board has established four sub-committees, an Audit and Risk Sub-committee, Codes Review Sub-committee, Community Engagement Sub-committee and the Remuneration Sub-committee.

All non-executive directors are appointed following recommendations of the independent Nomination Panel, following public advertising and short-listing on the basis of merit. The assessment of the Department's specialist adviser was that the current boards are highly experienced and well-credentialed for their roles.

Executive Committees

SBS has two executive committees: Executive Committee and Content Executive Committee.

The Executive Committee (ExCom) has a membership of 12, which includes the Managing Director, CFO and all other Divisional directors. ExCom meets twice a month to discuss strategy as well as particular information or decision items that need to be brought to ExCom's attention and to undertake an in-depth review of overall business operational and financial performance. ExCom also convene regularly as part of the annual planning process, in particular the strategy, efficiency, business priorities and annual budget meetings, as well as the regular quarterly financial reforecast meetings.

The Content Strategy Executive involves the heads of each of the Content divisions, as well as other key members of the Marketing and Content teams, including the Directors of Marketing, TV, Audio and Language Content (ALC), News and Current Affairs, and Media Sales as well as the Chief Digital Officer. The MD is invited to attend, but is not a standing member of the group. This group discuss overall content strategy and direction for each channel, review audience performance across all platforms, as well as commissioning and network programming

Corporate planning and budget process

The SBS Board has an obligation to produce a corporate plan for a period of not less than three years and not more than five years. This must set out the objectives of the organisation, outline its overall strategies and policies to achieve those objectives and fulfil its functions, a forecast of revenue and expenditure, and any performance indicators and targets. The corporate plan requirements are outlined in the SBS Act.

The Board may review and revise a corporate plan at any time. As soon as practicable after a Board prepares or revises a corporate plan, it must be provided to the Minister. Ministers are not required to approve these plans, nor table them in Parliament. However, the plans are made publicly available.

SBS revised its planning and budgeting process in 2012-13 to establish an integrated process that coordinates setting of strategic direction with identification of efficiencies, setting annual budgets and operational planning. As a result, budget decisions are closely linked to all planning processes; with regular monitoring and reporting to the SBS management and Board. Although this process is still being implemented, its design should provide an ability for the MD and Board to set strategic direction and maintain incentives to achieve efficiencies.

The SBS Corporate Plan 2013-16 provides the overarching guide to the organisations strategies and goals. The annual budgeting and planning process is the end-to-end process that translates the vision and strategies of the Corporate Plan into specific actions. This is translated into a detailed annual planning calendar which is distributed across the organisation to ensure all stakeholders are aware of the timing of key events.

The development of individual division and business unit plans, linked to the strategies identified in the Corporate Plan, assists each division with resource allocation decisions within their base funding levels, as well as guiding them on the preparation of business priorities for incremental funding. The Business Unit Plans cascade to individual WEDPs for Directors and their teams.

Budgets are formally approved in June by the SBS Board. All SBS Divisions are required to operate within their approved budget. These budgets are reviewed by the Executive and the Board on a quarterly basis, as is the implementation of agreed efficiency initiatives and approved Business Priorities. The budget and planning process is reviewed on an annual basis.

Risk Management

The SBS Risk Management Plan is regularly updated. It identifies and addresses the management of the major risks and opportunities facing SBS. The SBS Risk Management Plan and risk assessment processes are regularly revised. The goals behind Risk Management in SBS are:

- to provide an assurance that SBS has identified its highest-risk exposures and has taken steps to properly manage these
- to ensure that SBS's business planning processes include a focus on areas where risk management is needed
- to ensure the integration of the various and many risk control measures that SBS already has in place
- to be comprehensive and effective.

The identification of risks allows for the redirection/focus of resources on high risks. The SBS Audit and Risk Committee receives regular reports on the management of the identified 'highest risks' facing SBS.

Audit

Audit is managed by the Audit and Risk Sub-committee of the Board, including setting the annual Internal Audit program. The audit plan is conducted by Ernst & Young on a contract basis.

Delegations

Delegations are clearly described for key roles and provide certainty about authority for decision-making. All expenditure, regardless of the level of delegated authority, must be within approved budgets.

Other Governance Functions

Other elements of SBS governance framework include policies for:

- Fraud Control Plan based on a fraud risk assessment (conducted using the methodology outlined in the International Standard for Risk Management, AS/NZS/ISO 31000).
- Disaster Recovery Plan and Business Continuity Plan
- project (program) management policies
- process for verifying statutory compliance

Accountability and Reporting

Annual appropriation from the Commonwealth is set in the Portfolio Budget Statement (PBS). The outcome description for SBS in the PBS is to provide multilingual and multicultural services that inform, educate and entertain all Australians and in doing so reflect Australia's multicultural society. For SBS this Outcome is divided in five program activities each of which have KPIs.³⁷ SBS's performance against these KPIs are reported annual in its Annual Report, and evaluated as part of its triennium funding submission when it submits its Cost and Performance report to the Minister for Communications.

The Annual report provides comprehensive reporting against KPIs and as well as a description of major activities carried out each year. For SBS the report includes comprehensive information on audience reach.

SBS performance reporting while strong would be improved by reporting longer term trends.

³⁷ *Portfolio Budget Statements 2012-13, Budget related paper no. 13. Broadband, Communications and the Digital Economy Portfolio*, p 129-135.

Appendix F: Methodology

The Department conducted the study with assistance from a specialist adviser, Mr Peter Lewis, formerly Chief Financial Officer of Seven West Media Limited.

Two representatives from the ABC and one representative from SBS provided the Department with extensive data relevant to the report at the request of the study. ABC and SBS staff worked full time on data gathering and analysis for the study team, but did not have input into the report's final conclusions on a possible way forward for the ABC and SBS to achieve savings and efficiencies.

Two analysts were also engaged by the Department to undertake a detailed assessment of financial data provided by the broadcasters and assisted the study team to ensure the analysis used in the report was accurate, robust and communicated clearly.

Data requests

Requests for data included breakdowns of staffing numbers by location and division, divisional and section budgets, detailed charts of accounts, profit and loss figures, production outputs and audience measurement and ratings. This was in addition to non-quantitative information requests such as governance and reporting frameworks, process and system information and key performance measures.

Data analysts were responsible for extracting data, comparing like for like between the broadcasters where possible and comparing figures to industry and government benchmarks.

Previous Reports

The study team considered the findings of the following previous reviews of the national broadcasters:

The Challenge of a Better ABC, Bob Mansfield, January 1997

Corporate Governance in the Australian Broadcasting Corporation, Australian National Audit Office, 8 April 2002

ABC Funding Adequacy and Efficiency Review, KPMG, February 2006

Project W, Boston Consulting Group, October 2008

Scoping Study to assess potential operating efficiencies for the National Broadcasters, Convergent Consulting, 9 February 2009

Report on Potential efficiencies from combining ABC and SBS administrative back-office functions, Department of Communications and the Digital Economy and the Department of Finance and Deregulation, 13 April 2010

SBS Funding Adequacy Review, Deloitte, 2 September 2011

ABC Cost and Performance Report, Australian Broadcasting Corporation, 3 October 2012

SBS Cost and Efficiency Review 2008-09 – 2011-12, December 2012

Appendix 29 - Special Broadcasting Service Corporation Financial Benchmarking Exercise, Deloitte, 18 December 2012

Consultation

The study team met with the following representatives during the course of the study:

ABC

David Pendleton

Kim Dalton

Ken Gallagher

Brian Jackson

Peter Riley

Peter Longman

Richard Finlayson

Kate Dundas

Kate Torney

Samantha Liston

Tours

ABC Ultimo, Sydney

SBS Artarmon, Sydney

MediaHub

SBS

Michael Ebeid

James Taylor

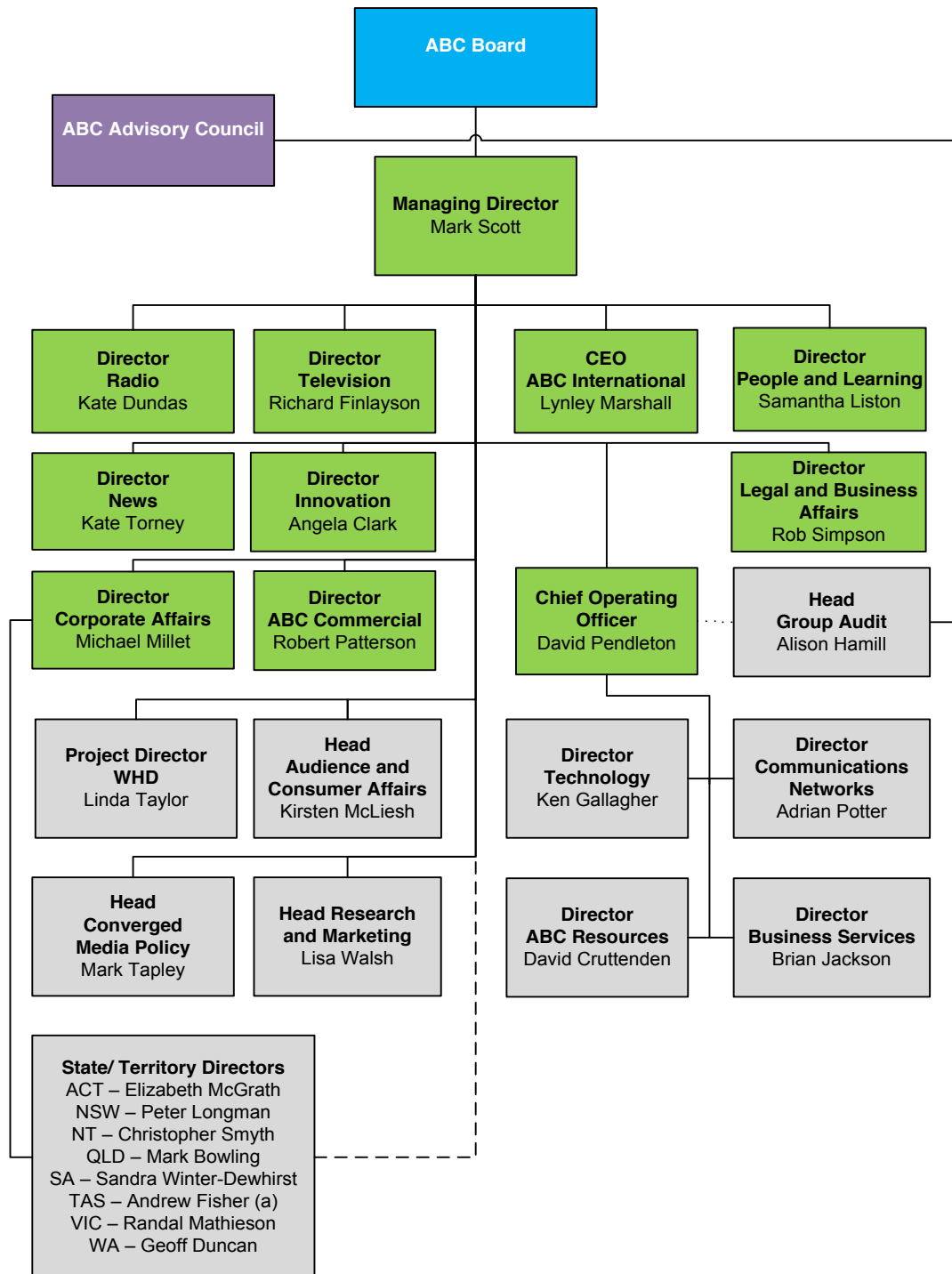
Melinda Tunbridge

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

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

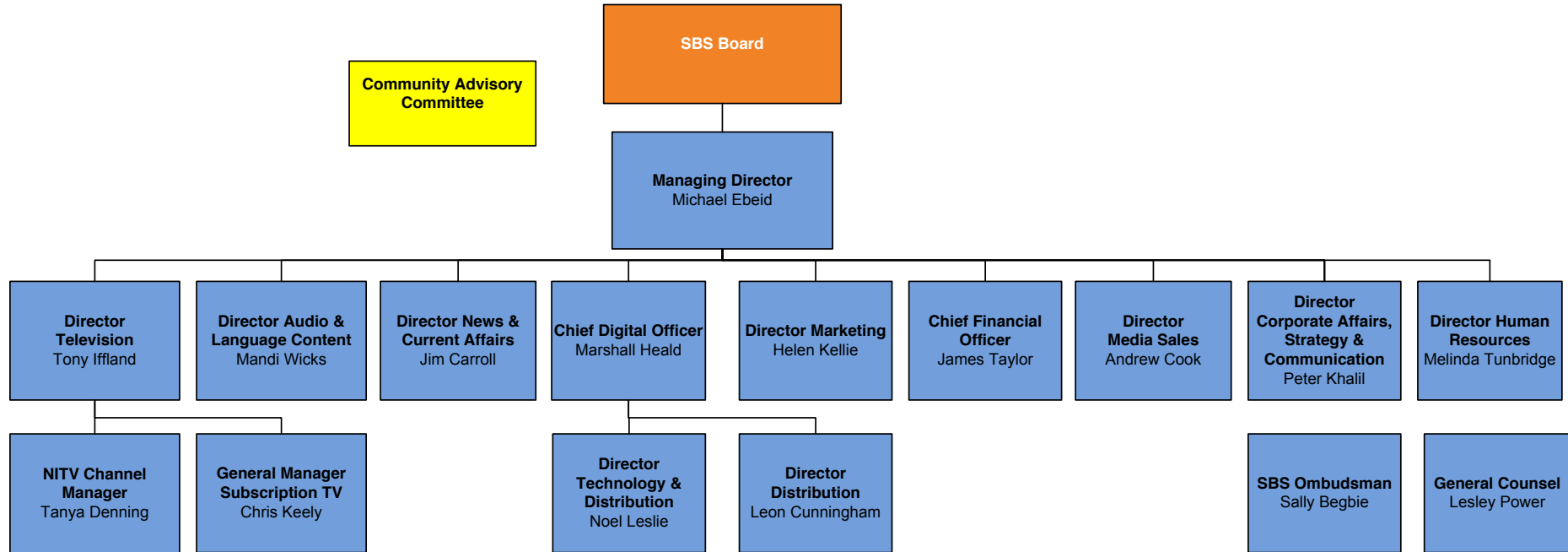
Appendix H: ABC Organisational structure

Source: *ABC Annual Report 2013*, p 21.



Appendix I: SBS Organisational structure

Source: SBS Annual Report 2012-2013, p 12, names have been updated where required.



Appendix J: ABC FY 2013-14 Budget by Division and Location

The study observed that the geographic distribution of the ABC across 62 sites imposes additional costs on the ABC.

It is understood that the ABC's rationale for this distribution is based upon telling important national and local stories across television, radio and digital platforms. Such a focus has resulted in the ABC maintaining a number of sites across all states and territories including in capital cities and regional areas. However, not all sites provide the same services to audiences, for example:

- excluding news, the majority of internally produced ABC television content is produced in Melbourne and Sydney, with a small amount produced in Adelaide
- regional areas have a radio news presence but no television news bulletin is produced

Despite these variations there are a number of commonalities between state and territory capitals and regional areas and the amount of locally produced television, radio and digital programs, for example:

- each state and territory capital produces a 7.00 pm TV news bulletin which includes a significant number of local stories. Other operational areas focusing on local issues include hourly radio news bulletins, local radio programs and an online presence.
- each regional radio station produces a local breakfast program and associated following programming. In addition, each regional radio station has its own news presence ensuring that important regional issues are covered and reported on. The majority of regional areas have an online presence devoted to regional news and other topical issues.

Such an operating model comes at a cost, much of which is incurred irrespective of the 'efficiency' of the ABC. The need to cover local stories means having a physical presence, and with such a presence comes staff, operating and capital expenses.

The study understands that the ABC considers that there are also costs imposed on other parts of the organisation that are not physically located in the state/territory capital and/or region. For example, the number of operating facilities (studios, edit booths, etc.) across all sites dictates a level of technology resourcing to maintain this equipment. Further, the management of each site imposes additional costs on the ABC that an organisation with a much smaller property footprint wouldn't incur.

In addition, operating a range of geographically dispersed locations imposes a greater communications costs on the ABC. Each site is linked to each other, enabling programing and information to be readily shared and broadcast.

