

SBS Triennial Funding Submission

(for 2009-2010; 2010-2011; 2011-2012)

as proposed by Save Our SBS Inc

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SBS funding for the next triennium – Executive Summary

By any reasonable measure the Special Broadcasting Service Corporation (SBS) has been under funded.

- SBS total revenue (for both its radio and television services) is less than one fifth of the average commercial television station in Australia.
- The SBS receives about one quarter of the funding that the ABC receives from government and the total combined public funding for both broadcasters is less than half that, on a per capita basis, of the BBC.

This has led the SBS to seek additional funds through advertising. The changes brought about by advertising have been gradual, but they have now reached the point where SBS television, in prime viewing time, is losing its distinctive multicultural character. This has led to public alarm within ethnic communities, and the public at large.

In a liberal democracy, close regulation of the media by the government is clearly undesirable. Australian governments have decided that very light handed regulation through the Australian Communications and Media Authority, coupled with competition amongst three very distinct broadcasting sectors, should ensure diversity in the broadcast media. Accordingly, Australia has three separate broadcasting sectors: community, public, and commercial. However they are becoming less distinctive.

As SBS-TV advertising revenue has grown, its distinctiveness, and its commitment to multiculturalism, has declined.

An international study by McKinsey and Co,⁷ which looked at nineteen public service broadcasters around the world, found that separate and distinct sectors did indeed have the potential to pay a diversity dividend, without the need for heavy-handed regulation. However McKinsey found that this only worked if the public service broadcasters had both a distinctive schedule and adequate government funding. They concluded "an increase in dependence on advertising has led inexorably to a more popular and less distinctive schedule". Save Our SBS suggests that this is exactly what advertising has done to SBS-TV.

Save Our SBS recommends that the interruption of programs for advertisements should be prohibited immediately, followed by a complete ban on all advertising on the SBS. There should be an increase in funding to enable the SBS to fulfil its role as an effective public service broadcaster within a public service/commercial/community broadcasting environment. If the SBS were funded at half the rate of the ABC, our two public broadcasters, between them, would still provide better value than either the BBC or Australian commercial television.

Committee of Management
Save Our SBS Inc
5 August 2008



SBS funding for the next triennium

By any reasonable measure the Special Broadcasting Service has been under funded. SBS is the poor cousin when compared with public and commercial broadcasters within Australia and overseas.

SBS total revenue (for both its radio and television services) is less than one fifth of the average commercial network in Australia. This figure includes both government support and funds from commercial activities, including advertising.

- The total revenue for the SBS (from all sources) in 2005-6 was \$241,782,000.¹
- Total revenue for commercial television in the same year (less licence fees to the government for broadcast spectrum, for which SBS does not pay) was \$3738 million.²
- Given the three free to air commercial TV networks, the average revenue for each commercial TV network was \$1246 million, or more than five times the revenue for all SBS output, including its radio services.

The SBS receives about one quarter of the funding that the ABC receives from government and the total combined public funding for both broadcasters is less than half that, on a per capita basis, as the BBC.

- Total licence fee support for the BBC in the twelve months ending March 2005 was 3.1 billion UK pounds.³ At the July 2008 rate of exchange this translates to \$A6.42 billion.
- Total government funding for the ABC in 2005-06 was \$827,269,000,⁴ while the SBS received \$176,472,000.¹ Total for the two Australian public broadcasters was \$1,003,741,000.
- With the Australian population at a little over 20 million, and the UK population at 60 million, per capita government support for public service broadcasting in the UK was \$107 per year and \$50 per year for Australia.

This has encouraged the SBS to seek additional funds through advertising and other commercial activities. As a result, advertisers have replaced the viewer as the client of the SBS, while viewers have become the product to be sold to the advertiser. Efforts to attract advertising have caused the SBS to become less distinctive, and less committed to its multicultural mandate, as it seeks to compete in the commercial market.



In a liberal democracy close regulation of the media by the government is clearly undesirable. Both government broadcasters, the SBS and the ABC, operate at arms length from the government of the day. Save Our SBS welcomes the notion of the Australian version of the British Nolan system type of appointments for the SBS Board as being a more transparent system of appointments that will lead to better governance of the SBS.

Australian governments have decided that very light handed regulation through the Australian Communications and Media Authority, coupled with competition between three very distinct broadcasting sectors, should ensure real diversity in the broadcast media.

However the reliance on difference and diversity in the three media sectors to ensure a degree of pluralism starts to fall apart if all three sectors are colonised by advertisers.

The community sector has been severely affected. Initially free of advertising, the community broadcasting sector is now heavily reliant on advertising. A survey conducted in 2002-3 by the Community Broadcasting Association of Australia indicated that across the community radio sector advertising is the single largest source of income and on average accounts for one third of total station income.⁵

A study of community radio in regional areas by Dr Catharina van Vuuren found that one Queensland community radio station was receiving nearly 80% of its income from advertising.⁶

An international survey of public service broadcasters (PSB), commissioned by the BBC and conducted by McKinsey and Co in 1999,⁷ argued that the presence of a public service broadcaster in a broadcasting ecology consisting of both commercial and public service broadcasters:

. . . combines creative and market pressures on broadcasters to achieve society's aims for its broadcasting market.

It does so by setting off a 'virtuous circle' with its commercial competitors. Because of its unique role and funding method, a PSB can popularise new styles of programming, and thereby encourage commercial broadcasters to create their own distinctive programs. In this way the viewing standards of the entire market are raised.



*An example from the UK helps illustrate this. The BBC spends large sums of money and, often, several years to make compelling, highly rated costume dramas such as *Pride and Prejudice*. The competing commercial channels, rather than concede the genre to the BBC, have created their own popular costume dramas – e.g. ITV's *Moll Flanders* and Channel 4's *The Camomile Lawn*. The competition among the three broadcasters raises quality and reinforces audience taste for the genre.⁷*

The McKinsey survey reached the unsurprising conclusion that the greater the advertising income that a PSB received, the more it looked like a commercial broadcaster and the less it looked like a public service broadcaster. The consequence for the broadcasting ecology was that:

Many PSBs are funded, at least partly, through advertising. Our survey shows clearly the potential dangers of this approach. We have found evidence that the higher the advertising revenue as a proportion of total revenues, the less distinctive a public service broadcaster is likely to be.⁷

We suggest that this has been exactly what has occurred to SBS-TV. When advertising was first introduced to the SBS, following legislative change in December 1991, there was a gradual shift in the television service from multiculturalism to cosmopolitanism.

Just over two years later, in 1994, this resulted in the SBS changing its slogan from “Bringing the world back home” to “The world is an amazing place”. Dr Chris Lawe-Davies commented that:

An overview of the market and advertising research reports carried out for SBS between 1993 and 1994 confirms anecdotal accounts of the effects of advertising culture on SBS programming outlined in the previous chapter of this thesis: that it has had a profound effect on the broadcaster in shifting the orientation of SBS away from the terms of the Charter and towards satisfying market conditions. One of the dominant criticisms of the campaign was the appropriateness of a public service broadcaster being so led by community attitudes; when its Charter quite clearly requires it should instead be leading the community in attitude change.⁸

While it would be an exaggeration to say that the cart was leading the horse, the advertising influenced decision to pursue the middle class and predominantly Anglo-AB demographic in preference to migrant communities had begun to distort SBS-TV's programming priorities. With the arrival of Shaun Brown as Managing Director the cautious and discreet incorporation of advertisements became brash and



aggressive. The scale and stridency of advertising rose. Advertisers would pay more for interrupting programs with advertisements. The logic of the market was enthusiastically embraced.

It was no longer a case of multiculturalism morphing gradually into cosmopolitanism, but a policy of marginalising the SBS Charter. Moving most of them to less accessible times has marginalised programs in languages other than English.

Approximately four-fifths of prime time on SBS-TV is now in English. Prime time is generally understood to be the optimum time for most people to watch television, and is defined by the Australian Communications and Media Authority as being between six and ten thirty in the evening. However SBS management would have us believe that prime time extends from ten thirty right through to midnight. Through this sleight of hand they sought to disguise the degree to which they have abandoned a key part of their audience.

It is not surprising, as advertising has increased on SBS-TV, that the station's output should look more and more like the commercial competition. Hotelling's Effect, or the Principle of Minimum Differentiation, has been well known to economists since the early part of the twentieth century. Professor Glenn Withers described its application to broadcasting as follows:

The reason for this is that stations based on advertising revenue will seek to maximize their audience (and thereby their revenue). Stations will therefore duplicate program types as long as the audience share obtained is greater than that from other programs.

Hence a number of stations may compete by sharing a market for one type of program (such as crime dramas) and still do better in audience numbers than by providing programs of other types (such as arts and culture). In economics this point is an application of the Principle of Minimum Differentiation, a principle also capable of explaining such associated phenomenon as why bank branches may cluster together, why airline schedules may be parallel, and why political parties may have convergent policy platforms.⁹

This principle informed a recent econometric study in Australia, which modelled the



impact of a government funded player into a commercial television market, and found that:

When a government player was introduced to an otherwise free enterprise market, greater diversity, lower 'collusion' and greater market coverage was enjoyed by viewers. Surprisingly though, the presence of a government player also brought about increased revenues for the other market players...

Similarly, privatisation of the government player results in decreased viewer choice and diversity. Also a decrease in total market share results in a reduction of revenue for the existing market players. Curiously, not a single positive outcome was observed from the privatisation of a government player.

Almost all of the outcomes predicted by our model have been observed, either in the Australian or the US television market, empirically.¹⁰

This conclusion is consistent with the observation in the McKinsey survey that the larger the proportion of advertising revenue in the budget of a public service broadcaster, the less diversity in the market.

In the context of SBS, Senator Conroy expressed his concerns about advertising eroding the fundamental tenets of public broadcasting, when he wrote:

The introduction of in program advertising to the SBS in effect makes the SBS a de facto fourth free-to-air commercial television station and serves to erode the fundamental tenets of public broadcasting- that is, that it should be free from commercial and political influence.¹¹

Save Our SBS agrees with the sentiments expressed above.



Funding Recommendation for the SBS

Save our SBS recommends that the interruption of programs by advertisements should be prohibited immediately. Accordingly, Save Our SBS would support amending section 45 (advertising) of the *SBS Act* for such purpose. A prohibition on interrupting programs for advertisements should be followed by a complete ban on all advertising on the SBS. We do not see any reason for SBS to continue to carry advertisements when properly funded from government. We acknowledge that SBS estimated it may require an extra \$29.39m to \$35.72m (30- 35% of base government funding) if SBS ceased interrupting programs for advertisements or \$72.45m to \$78.85m to drop advertising completely¹², however, Save Our SBS submits that SBS is worthy of a substantial increase in base government funding regardless. An increase in government funding would enable the SBS to fulfil its role as an effective public service broadcaster within a public service/commercial/community broadcasting environment. A substantial increase in funding is required.

We suggest that SBS funding be increased to half that of the ABC.

Taking the 2005-6 financial year as a comparison, this would have seen SBS funding at \$413,634,000 with the ABC at \$827,269,000. The total for both public broadcasters would have been \$1,240,903,000.

Such funding would have seen the ABC and the SBS, which broadcast both radio and television, with a lower income than the average commercial television network which received \$1,246,000, 000 in 2005-6.

While this is a large increase for SBS, this increase in funding is small by comparison with public broadcasters overseas and the revenue of the commercial sector in Australia. Australians would have paid \$58 per head per year for our public broadcasters, while in the U.K. support for the BBC was running at \$107 per head per year in 2005-6.

Both SBS and ABC have two television channels. Financially, SBS struggles to operate SBS2, while SBS1 now looks more like that a commercial network rather than the public multicultural broadcaster intended. SBS has correspondents in many countries around the globe as does the ABC. The ABC has 5 domestic radio networks and broadcasts overseas, while the SBS has two radio networks. SBS does more multilingual broadcasts than the ABC. Both SBS and ABC run web sites. SBS is



smaller than the ABC on the number of radio networks but has the same number of TV networks but is disproportionately under funded.

The output of the SBS is comparable to at least half that of the ABC - however the current base funding is much less than half that of the ABC. By comparison to Australian commercial broadcasters, by comparison to public broadcasters overseas, and by comparison to the ABC, the SBS is under funded.

Even without comparison to other Australian broadcasters, SBS is worthy of an increase in funding due to its unique role within Australian society. This value, or 'cultural worth of SBS' deserves preservation, which can only be achieved by further funding and a withdrawal of advertising.

Save Our SBS recommends that base funding from government for the SBS be set at not less than half that provided to the ABC and indexed annually in the usual manner.

Save Our SBS Inc
5 August 2008



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