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The Cost of Everything and the Value of Nothing? Funding Possibilities for Public Television in New Zealand

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> *"The continuing difficulty of winning support for public investment in broadcasting is an index of how little fundamental impact three terms of a 'third way' government has had on the prevailing neoliberal paradigm [...] Despite passing important legislation introducing [...] the Charter and Maori Television Service, Labour has yet to establish a set of 'ringfenced' public funding mechanisms to entrench and sustain its progress on public broadcasting. Consequently there is little to prevent any subsequent administration less sympathetic to public broadcasting values from revisiting the commercially focused agenda of the 1990s".*
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> -PeterThompson, *From the Digital Sublime to the Ridiculous*, 2007, p.57.

> *"We know there is an expectation in the community for public service broadcasting content which a commercial broadcasting model is unlikely to deliver. Along with the Māori Television Service, TVNZ 6 and 7 have provided an opportunity to explore those possibilities [...] With funding for TVNZ 6 & 7 finishing in mid 2012, we are looking at various options for public broadcasting that achieve the best possible outcomes for that spend. There is clearly a demand for a quality public broadcaster and there is ongoing discussion about what shape a future public broadcaster may take".*
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> -Jonathan Coleman, SPADA Conference, 12 November 2010

This paper is divided into four parts. The first part will provide a cursory overview of the main changes in broadcasting policy introduced by the current National-led government, noting key decisions that have reversed public television reforms introduced by previous Labour governments. The second part will briefly discuss the need for public funding for both content and institutions and identify some of the features of the current television ecology. The third part will contextualise some of the common objections to public funding, and challenge the government's recent assertions that additional support for public television services is simply unaffordable. The final section will look at some of the principles that underpin effective public funding mechanisms. It will also consider some hypothetical projections for costing different forms of public service television service in New Zealand and identify some funding mechanisms that may have the potential to provide workable solutions to public television challenges in the digital broadcasting ecology.

Politics and the NZ television ecology

Despite three terms in office between 1999-2008, Labour's efforts to redress the market failures of the broadcasting sector stemming from the deregulation of the 1990s had under-delivered on expectations. Although the establishment of the Maori Television Service and Pacific Radio Trust were significant developments, the centrepiece of Labour's reforms is now widely regarded as a failure: The restructuring of TVNZ as a crown company with a dual remit, combining a public service Charter with obligations to maintain commercial performance, had delivered mixed results. Although the Charter itself set out laudable cultural and

[1] Revised August 2011 following the TVNZ Amendment Bill third reading which abolished the TVNZ Charter.

civic objectives[2], TVNZ remained 90% dependent on commercial revenue. Indeed, the public funding provided through the Ministry for Culture and Heritage (MCH) to off-set the Charter's commercial opportunity costs was lower than the dividends it was obliged to pay the Treasury[3]. Frustrated by the disproportionate expectations and pressures to maintain the credibility of the Charter as government policy, TVNZ's use of the Charter funding was not always transparent. In turn this was a source of frustration for its commercial rivals who (understandably) regarded the public subsidy as market distortion and lobbied hard to have this money made contestable like the NZ On Air fund (see Thompson, 2007, 2008a).

When the National-led government returned to office in November 2008, TVNZ's commercial rivals had their wish granted. Jonathan Coleman promised to 'unshackle' TVNZ from its problematic dual remit (National Party 2008a, 2008b) and make its Charter funding contestable under NZ On Air. Although the Charter remained in statutory force, the funding arrangements were not part of the 2003 legislation. Because the MCH subsidy had never been hypothecated (ringfenced) it required only a change of policy to divert this and establish the new Platinum Fund in 2009. Importantly, this new contestable fund extended the range of programmes normally eligible for the regular NZ On Air fund[4]. However, it did not fundamentally alter a key shortcoming of the contestable system, i.e. the requirement that a national broadcaster agree to air proposed programmes means funding decisions cannot always be insulated from the commercial priorities of commissioners/schedulers, especially with genres that incur significant opportunity costs. This point is particularly important given the government's subsequent policy decisions on funding TVNZ 6 & 7.

The establishment of TVNZ 6 & 7 (in 2007 and 2008 respectively) on Freeview, the new free-to-air digital platform, was significant because they were commercial-free and offered a very different schedule to other commercial channels (including TV One and TV2). The decision to fund them with $79m over six years (up to 2012) was again subject to inter-ministerial contestation. The MCH and MED (Ministry for Economic Development) supported the initiative; the former because the channels would complement the still-largely-commercial TV One and TV2; the latter because they would drive the uptake of Freeview and help expedite the economic benefits of an early analogue switch-off. Although the funds were primarily derived from a special dividend TVNZ had paid as part of a capital restructuring exercise, Treasury had questioned the benefits of the new public service channels and opposed any further provision of taxpayer support[5]. Meanwhile, TVNZ's commercial rivals complained that the funding unfairly favoured TVNZ, although the fact that TVNZ 6 & 7 did not compete for substitutable audience share and advertising suggests the claims of market distortion were somewhat self-interested[6].

National's redirection of the Charter funding to the Platinum Fund was followed by the announcement of the TVNZ Amendment Bill in 2009 to abolish the Charter. Despite opposition from Labour, the Greens and the Maori Party, The Bill's third reading passed through Parliament in July 2011, and the Charter is now history. As Thompson (2010, 2011) has pointed out, National had talked of 'unshackling' TVNZ from its dual remit but had not made its specific plans for the Charter clear in its pre-election statements[7] (see National Party 2008a, 2008b). Conspicuous by its absence from the Bill was any mention of the future plans for TVNZ 6 and 7 after the funding expired in 2012. It must be said that the government's apparent policy uncertainty was not helped by the decision in 2009 to can the Review of Regulation for digital broadcasting which MCH and MED had initiated under Labour, because this was intended to provide the government with advice on the possible structural, institutional, financial and regulatory arrangements.

[2] Critics of the Charter, including Jonathan Coleman (see Media 7, 2009) alleged that the objectives were meaningless and too woolly to be functional. Given their necessarily normative formulation, and in comparison with similar documents (the RNZ charter is rarely challenged in this manner), this is largely unjustified, especially considering the revisions to the Charter document as part of the 5-year review in 2007. The Commerce Select Committee (which included Dr. Coleman) approved the amended Charter, but the election of the National-led government in 2008 meant it was never ratified in Parliament. A better focus for criticism would be the lack of specificity on the balance between TVNZ's commercial and Charter imperatives demanded by the government and other stakeholders.

[3] Between 2003 and 2008, TVNZ received $95 million in Charter funding from MCH but returned $142 million to the Treasury in dividends. See Thompson (2009) http://www.scoop.co.nz/stories/HL0903/S00356.htm

[4] Significantly, this underlines the limited scope of the regular contestable fund and the need to define public service television provisions in terms broader than just 'local content'.

[5] The Minister of Broadcasting's personal comments to the author at the launch of TVNZ 6 on 30 September 2007 confirmed there had been difficult negotiations with the Minister of Finance. Two other sources close to the cabinet negotiations confirmed that the Prime Minister had eventually intervened in favour of funding TVNZ 6 & 7.

[6] A more valid argument has been articulated by Jim Blackman, the founder of independent channels Triangle and Stratos, who contends that a smaller television operator could provide a comparable service to TVNZ 6 & 7 on a lower subsidy (personal communication with author). Given recent funding decisions, this is an interesting policy option.

[7] Of course, in principle, it would have been equally possible to 'unshackle' TVNZ from its dual remit by rescinding its Crown dividend obligations.

The Minister of Broadcasting had argued that in a multi-platform digital broadcasting environment, the policy focus needed to be on supporting content provision rather than on public broadcasting institutions (Media 7, 2009). This suggested that the continuation of TVNZ 6 & 7 was unlikely. The channels were moved onto Sky's platform, whereas previously they had been carried exclusively on Freeview. This had been a point of contention between TVNZ and Sky, because the latter would not offer licensing payments for channels carried on other free-to-air platforms. Accordingly, when TVNZ's new Heartland channel was developed, the revenue was derived from exclusive carriage on Sky's platform. TVNZ, meanwhile, anticipated that they would not be funded to continue both TVNZ 6 and 7. TVNZ 6 was replaced with the commercial youth-oriented channel 'U', and part of its programming has been condensed into a re-branded TVNZ 7. Meanwhile, the Kidzone component of TVNZ 6 has become a separate channel exclusively on Sky's platform along with Heartland.

Two important policy principles arise here; firstly, the placement of publicly-owned channels behind Sky's paywall is problematic in terms of the public service principle of universal accessibility, especially if they make use of content that the taxpayer has subsidised. Secondly, the arrangements under which Sky pays TVNZ for exclusive carriage of Heartland and Kidzone but not for TVNZ highlights a missed opportunity to examine funding mechanisms and the balance of relations between the free-to-air sector and Sky. The canned Review of Regulation would have examined the possibility of must-carry-must-pay (or must-offer-must-pay) arrangements for Pay-TV operators. These arrangements recognise that subscription platforms benefit from the carriage of free-to-air services and require the operator to pay modest licence fees to the free-to-air channels even if they are available on other platforms (such as Freeview). Had such measures been implemented, then quite apart from significantly repositioning the free-to-air sector's relation to Sky (a key reason why Sky opposed the Review of Regulation), a revenue stream sufficient to support the continuation of TVNZ 7 might have been developed[8].

In October 2010, a Cabinet document (released under the Official Information Act) outlined alternatives for continuing the operation of TVNZ 7 or a similar public service channel (Office of the Minister of Broadcasting, 2010). It was noted that the efficiencies of continuing a service supported by an existing broadcaster would be more cost-effective than creating a new channel from scratch. Three options were identified for consideration:

i) Continued reliance on NZ On Air contestable funding. It was noted that the dependence on agreement of a broadcaster to schedule could fail to meet some audience needs (implicitly recognising that much of the material on TVNZ 7 would not be attractive to commercial schedulers). In effect, this was the status quo/ 'do nothing' option.

ii) Maintain a TVNZ 7-type channel alongside TVNZ. The document acknowledges that this option would be a *'cost effective way of meeting public expectations and addressing long-standing criticism and concerns about public service television in New Zealand'*. However, underlining treasury's commercial expectations, it was noted that there were concerns about the transparency of the commercial/public service division in TVNZ and the on-going public expenditure.

iii) Implement a contestable tender for a public service contract to provide a channel[9]. It was noted that the competitive tender might off-set the concerns of commercial broadcasters if the Platinum Fund were reclaimed for this purpose, and also be potentially cost-effective.and innovative. However, it was also recognised that monitoring performance could be complex, and that there might be functional conflicts of interest if a commercial broadcaster were awarded a public service contract.

Remarks by the Minister of Broadcasting at the SPADA conference in November 2010[10] suggested that National's policy on TVNZ 7 had not been finalised, and that the possibility of retaining one commercial-free public service channel was still under consideration. TVNZ was invited to submit investment plans for maintaining TVNZ 7. However, Treasury pressure on TVNZ to meet dividend expectations precluded models that entailed cross-subsidy of TVNZ 7 from the commercial channels, Shortly after the SPADA conference, TVNZ submitted a proposal to cabinet outlining investment scenarios that would enable TVNZ 7 to continue operating as a commercial-free public service channel (TVNZ7). The document (released under the Official Information Act) shows that TVNZ was unable to identify ways to continue operating TVNZ7 on a self-funding basis and that without continued government funding, the channel would be unable to continue operation. Noting that TVNZ would continue to be supported indirectly through the provision of studios and programming. The document suggested three funding options: i) a continuation of the current funding for the Vote Broadcasting portfolio beyond 2010; ii) A reallocation of the Platinum Fund and TVNZ eligibility for contestable

[8] Of course, Sky would challenge this and likely argue that its carriage of free-to-air channels benefits the operator by extending signal and audience reach. However, as public access to Freeview gradually increases either through acquisition of set-top boxes or new television sets with built-in decoders, the ostensible benefits conferred on a free-to-air channel by carriage on Sky's platform decline.

[9] Interestingly, this was a funding arrangement used in France identified by in the 2005 MCH broadcasting funding report (see Thompson, 2005).

[10] Speech as SPADA conference, 12 November 2010, and also personal comments to the author at the same event.

funding; iii) A draw-down of the 'digital dividend' (i.e. funding from the public revenues gained through the economic growth generated by new digital services made possible by early digital switch-over, which TVNZ 6 & 7 had helped drive).

Treasury remained sceptical of any additional expenditure. A December 2010 report to Cabinet from the Crown Ownership Monitoring Unit[11] stated that, *'We recommend that the emphasis in this year's expectations letter is for TVNZ to continue to focus on the same expectations set in last year's letter, with a strong emphasis on improving financial performance, productivity and shareholder value.'* (COMU, 2010, p.2) It did however, note the possibility of amending the commercial expectations depending on the government's decisions on TVNZ 7. This is consistent with the Treasury's fiscal conservatism, but its ostensible flexibility on commercial expectations indicates that the final decision was ultimately determined by Cabinet priorities. Cabinet appears to have been dismissive of any request to increase the broadcasting portfolio budget[12]. A further COMU report was issued to Cabinet in February (contents remain withheld under the OIA), but a report to Cabinet from the Minister of Broadcasting on the same day, noted that,

> *'In the current fiscal and economic environment, there is no prospect of new money for TVNZ 7 when its current funding expires in June 2012. TVNZ has estimated that a channel costing $16.5 million per annum would provide a reasonable level of service. Transferring funding from the funding agency NZ On Air would be the only <u>fiscally neutral</u> source of the bulk funding for the channel. The result, however, would be the a significant reduction in the contestable funding available to producers. This would be inconsistent with the government's policy of focusing on the contestable funding model through NZ On Air to support public service broadcasting. A decision to provide ongoing funding would also place a new and ongoing funding commitment on this and future governments. [...] In a situation of greater commercial freedom, with the removal of its Charter, TVNZ could decide to maintain the channel from its own resources if it determined that such a channel would support its business model and add value to its brand. A continued TVNZ 7 could benefit TVNZ as a Crown entity company by enhancing the brand and providing a point of difference from other broadcasters, by offering programming largely unavailable on the commercial channels. However, that should be a <u>commercial</u> decision for TVNZ.'* (Office of the Minister of Broadcasting, 23 February 2011, p.1-3, emphases added).

The Cabinet's position evidently prioritised fiscal neutrality and its ideological commitment to contestability over any solution involving additional expenditure or direct funding. Although there was acknowledgement of the public value of TVNZ 7, it is clear that the expectation was that the funding should come from TVNZ and that this had to be a commercial decision in line with TVNZs business model. But as the Treasury documents show, this required Cabinet to modify their commercial expectations, and they evidently were unwilling to do this. There are two key assumptions here: Firstly, that public service outcomes are desirable but only as a means to a commercial end; Secondly, that public service outcomes can be delivered on a commercial platform- exactly the same contradiction that underpinned (and undermined) the TVNZ Charter. In effect, Cabinet wanted to have its cake and eat it.

In April 2011, National publicly announced that it would not be continuing the public funding for TVNZ 7 and that the channel would cease operation in 2012. The decision was rationalised by the Minister of Broadcasting on the basis that, although commercial-free public service television was 'nice-to-have', there was no more money available to continue the subsidy beyond 2012 (e.g. RNZ Morning Report 15 April 2011). It was true that Cabinet was unwilling to provide the broadcasting portfolio with any additional funds, but given that the amount in question was widely reported to be $15m, this was ultimately a political, not economic decision.

Unlike Steve Maharey, who was supported by Helen Clark when Michael Cullen opposed the funding of TVNZ 6 & 7, Jonathan Coleman was evidently unable to call on John Key to over-rule unsympathetic cabinet colleagues. However, the Minister of Broadcasting has to take some responsibility for the outcome: The early move to establish the Platinum Fund left his portfolio with no discretionary budget, and the premature cancellation of the Review of Regulation, coupled with Treasury's insistence on improved dividends foreclosed the possibility of funding TVNZ 7 from the revenues generated by TV One and TV2. The cabinet considered several different operating scenarios for a dedicated public service channel, but remained fixated on the existing budget allocations. Ultimately, the Cabinet's refusal to continue the funding for TVNZ 7 comes down to a combination of fiscal inflexibility on the budget and a reluctance to consider options that might require re-

[11] Formerly CCMAU- Crown Company Monitoring and Advisory Unit.

[12] It is also possible that Cabinet was uncomfortable with TVNZ's insistence that the only possible way to retain TVNZ 7 was with additional funding, especially given the additional economic pressures of dealing with the recent earthquakes in Canterbury. However, given the Treasury's unambiguous expectations of increased dividends, it is also possible that TVNZ's inability to develop a solution not requiring additional government spending was used as an expedient pretext by Cabinet members hostile to public broadcasting to abandon the channel.

regulation (see Thompson, 2005; 2008b): Potentially workable models are being overlooked purely on the grounds of insufficient budget, even though some funding models might generate new revenue streams and obviate such concerns.

Some critics have condemned National's position as a neoliberal attack on public broadcasting. Such an explanation certainly fits the surface facts and shift in the broad policy trajectory. However, this account overlooks the complex inter-ministerial negotiations that form the backdrop to policy formulation. Internal cabinet agendas, portfolio priorities/budgets, and competition for political status and policy profile interact with external pressures of unfolding events demanding policy responses, relentless scrutiny from the opposition in Parliament, and intense (but often superficial) media coverage (see Davis, 2010). This produces governments with a predilection for ad-hoc, incremental, issue-specific compromises that 'satisfice' rather than optimise policy outcomes[13]. This often means that strategic system-level policies that could work in principle get relegated to the 'too hard basket' or else implemented incompletely (or abandoned prematurely) with the result that they cannot achieve the intended outcomes. Labour's contradictory arrangements for the TVNZ Charter and National's failure to continue TVNZ despite appearing to consider it desirable are exemplify such tendencies.

The public value of public television- content and institutions

There are two market important rationales for publicly funded broadcasting. One is the standard economic argument for market failure and the under-provision of public/merit goods through commercial competition. The other (often overlooked) rationale is the systemic influence public broadcasting can exert on the wider media ecology (see Davies, 2005). There is certainly compelling evidence that, particularly in a small economy like New Zealand with a deregulated commercial media market, it will be difficult to sustain a full range of locally-produced content genres in adequate volume or quality. Commercial media seek to optimise revenue margins by minimising content production costs while maximising income from advertisers/sponsors or subscribers. In a highly competitive market, the pursuit of the most attractive margins tends to inhibit the commissioning and scheduling of precisely those programmes most likely to fulfil key cultural and democratic functions (e.g. educational documentaries, in-depth news and current affairs, ethnic minority programmes, and innovation/creative risk-taking in general). That does not mean that popular, commercially-viable programmes cannot contribute to such ends, but public service functions generally require an extension of programming beyond the commercial norm.

This means that the opportunity cost of producing and scheduling some forms of programmes needs to be overcome. For example, if an imported hour of drama costs, say, $50,000 and a comparable local production with similar audience-appeal costs $500,000, then it is economically irrational for a commercial operator to spend the additional $450,000 on the latter programme. Likewise, if an in-depth documentary or current affairs programme is scheduled in prime time when another programme (e.g. a popular game-show) more likely to generate high ratings and a greater margin of return is available. then commercial operators will be motivated to schedule the latter and move the former to a peripheral slot in the schedule.

Of course these factors explain why the TVNZ Charter's impact on the schedules of TV One and TV2 has been so limited. In contrast, because TVNZ 7 is commercial-free, its schedule is not driven by concerns about optimising ratings and margins. Consequently, it does not incur the same opportunity costs when it schedules prime time programming that other commercial channels would never consider viable. Other channels that provide distinctive schedules not driven primarily by commercial margins include the Maori Television Service (which carries some mainstream-appeal content but has a remit specific to Maori, specifically the protection of Te Reo) and the independent digital channel Stratos (which currently receives no public subsidy).

The National-led government's insistence that public broadcasting institutions are unimportant in a digital media environment is problematic in that it assumes that a) the proliferation of distribution channels will translate into a diverse supply of programming, and b) the availability of these services is a matter of consumer choice. However, even with the assistance of NZ On Air's contestable funding, this is often not sufficient to off-set commercial broadcasters' opportunity costs of scheduling some content genres. Moreover, the availability of many new media services (notably pay-TV) entails costs which are prohibitive for many consumers.

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[13] One might draw a rough analogy here between Herman & Chomsky's 'propaganda model' of media production (wherein content is circumscribed by various 'filters' including ownership structures, advertiser demands, sources, flak and ideology) and the process of government policy formation: Policy is 'filtered' by the agendas of the party hierarchy, intra-cabinet and coalition partner agendas, the need to appease party sponsors and contributors, the maintenance of support from the voting public and/or other stakeholders whose cooperation might be vital to policy implementation, flak in the form of parliamentary opposition and media criticism, and the prevailing ideologies that bound the scope what policies are deemed rational and reasonable. See Herman (1999).

The Minister of Broadcasting has suggested that the programmes provided by TVNZ 7 will still be eligible for contestable funding. This overlooks the difficulty of persuading commercial broadcasters to schedule programmes with high public value but limited commercial appeal. For a national commercial broadcaster, the opportunity cost of scheduling a programme such as Media 7 or the Court Report will be much higher than for other, more popular genres which are also eligible for NZ On Air funding. At present, though, TVNZ 7 remains ineligible and is scheduled for closure. Stratos is likewise ineligible for this funding. Although MTS is eligible, it has a specialised function which might be compromised were a more generic set of public service expectations to be imposed on it.

The limited audience share of TVNZ 7 has been cited as a justification for discontinuing its funding. There is an argument that public value is higher when programmes are enjoyed by larger audiences. However, TVNZ 6 and 7's public value was never based on ratings but from the provision of a complementary schedule to the commercial mainstream. They has also developed partnerships with other public sector institutions such as the department of Conservation and Plunket. The condensed/rebranded TVNZ 7 is new, cannot optimise its reach until analogue-switch-off (ASO), and is usually omitted from public television listings. Indeed, if audience share is the pretext for discontinuing the funding, then it is interesting to examine the 4-week cumulative ratings. AGB Nielsen (2011) statistics on 4-week cumulative audiences over 2010 reveal that TVNZ 6 and 7 together had 1.942 million viewers, and received roughly $20m of public subsidy[14] in FY2010 (Office of the Minister of Broadcasting, 2009). The Maori television service had 1.768 million viewers over the same period and received $33.3m of public funding, as well as being eligible for other contestable funding (MCH, 2010). Obviously that is not a pretext for cutting the funding for MTS, but it does suggest TVNZ 7's discontinuation cannot be justified on the basis of its audience size.

Although channel/platform proliferation may promote audience fragmentation, this does not necessarily lead to a proportional fragmentation of revenue (Kearley, 2011); rather, the capacity to deliver substantial audiences to advertisers attracts a premium, especially for channels with strong branding and audience-loyalty. This means there is potentially greater public value in providing public service content in prime time on mainstream channels than on specialised/minority channels. However, the opportunity cost of producing/scheduling public service-related genres unlikely to deliver a substantial audience share is likely to increase in a commercially competitive environment. As more channels chase the same audiences and advertising revenue, margins become tighter and broadcaster tolerance for any risk of reduced ratings or revenue is reduced. At the same time, increased demand for high quality content rights pushes up prices, especially for material that can be relied upon to lock in substantial prime-time audiences.

For example, Sky's recent $2.3m winning bid for the rights to New Zealand netball was over three times the level of TVNZ's bid (Herald on Sunday, 2011). This was not just another sporting event moving from free-to-air to behind a private paywall; the magnitude of Sky's bid compared with that of its rival arguably constitutes market distortion because buying power is being used to inflate prices beyond the scope of sustainable competition. If such instances are more than anecdotal, then commercial free-to-air operators are likely to face increasing costs for premium content rights packages essential to sustaining mass prime time audiences. In turn this will increase the opportunity costs entailed by local content production and/or the scheduling of any content likely to deliver sub-optimum margins. If commercial commissioners/schedulers require greater levels of public subsidy to off-set those opportunity costs then the public value derived from contestable public funding will decline and/or a narrower range of publicly-funded local content will be accepted as viable.

For example, even with the Charter still in force, and its branding as new Zealand's principal national television service, TVNZ turned down the landmark documentary series, 50 years of New Zealand Television. The series was instead accepted and screened on Sky's free-to-air subsidiary Prime in 2010. Prime doubtless deserves some credit here while TVNZ's hesitation underscores how easily the Charter was compromised by commercial demands. In one sense this could be regarded as evidence for the efficacy of contestable funding and the potential limitations of direct appropriations to a preferred broadcaster. However, this case illustrates another, more fundamental point: Prime's generally lower audience share meant its decision to screen the series entailed a lower risk and potential opportunity cost than TVNZ if the ratings proved to be limited.

There is a case to be made for competitive funding where the alternative is the institutionalised subsidy of a large, incumbent public broadcaster whose production costs are not efficient, or where the audience of a minority appeal not-for profit channel is marginal and public value is limited. But funding arrangements need to take account of the position of a channel in the wider media ecology; in *some* instances, private commercial media might provide more public value per dollar than a public channel. However this is certainly not a justification for making *all* funding competitive and open to all operators. Contestable public funding among a small group of similar commercial operators will still tend to overproduce genres/formats with proven audience

[14] This was part of the scheduled provision of the $79m which averaged $13.17m over the six year period 2007-2012.

appeal that minimise their opportunity cost. To ensure competition for quality and diversity, a plurality of institutional models needs to be present in the media ecology. In other words, optimising public value per public dollar requires an environment where there are not-for-profit operators which can accept content with high public value but high opportunity costs that would normally deter commercial operators.

The implication here is that the level of public value to be gained per dollar of public funding will usually be greater when directed towards a broadcaster not primarily motivated by the maximisation of profit-margins, especially on a channel with mainstream appeal. The cost of producing/scheduling a desired programme is generally greater for privately owned commercial media than for publicly-owned not-for-profit media because the former must factor shareholder returns into their opportunity costs. Ensuring the provision of a diverse and appropriate range of quality local content therefore needs a mixed market ecology including one or more not-for-profit operators. Generally speaking, the opportunity costs of including a full range of genres in the prime time schedule will be lower for broadcasters not motivated by the need to maximise ratings and revenue.

There is no question that New Zealand needs some kind of public service television operator not driven by commercial profits. It is fanciful to aspire to a monolithic BBC-style broadcaster costing $7 billion. As Kearley (2011) has argued, even though the traditional virtues of public service remain relevant in the digital media environment, there is a need for an updated model of public service operation that can deliver cultural and democratic outcomes while taking advantage of digital revenue opportunities and, where practical and judicious, build partnerships with other commercial operators and stakeholders. The institutional details of such a public service medium are largely beyond the scope of this paper, but some suggestions will emerge from the discussion of alternative funding mechanisms. Before that, however, there are challenges to any development of new funding models.

The cost of everything: objections to public funding for television

The National-led government argues that it already spends $231m per year on various aspects of public broadcasting, including $81.5m on television (MCH 2010). Even the estimated $16m it would cost to maintain TVNZ 7 is apparently unaffordable. The arguments about whether this is sufficient or not cannot be resolved on the basis of cost alone. The basic civic, cultural and democratic outcomes required in a healthy multi-cultural democracy must be identified and then adequate mechanisms put in place to deliver them. A recent report by Nordicity (2011) compared Canadian public service provisions with those in seventeen other advanced industrial countries. In terms of per capita expenditure[15], New Zealand languished in 17th place (NZ$34), above the USA (NZ$5- but whose large population and economy of scale means its overall public service contribution is still much greater than NZ). Significantly, all the countries of comparable population/economic scale such as Norway (1st / NZ$207), Denmark (4th /NZ$179) and Finland (5th /NZ$146) were well ahead of New Zealand, and although Ireland (12th /NZ$90) was in the bottom half, its investment was over double the per capita funding level here. The overall average for the eighteen countries was NZ$110 per capita, which is over three times the NZ figure. Meanwhile New Zealand came top of the list in terms of the overall ratio of commercial revenue dependency to total public broadcaster revenues (66% overall, although this includes RNZ, MTS and TVNZ). Even allowing for contestable funding, TVNZ was ranked 2nd out of 32 public broadcasters in terms of reliance on commercial revenues[16] (78%). No other comparable country has public broadcasting provisions that are so heavily dependent on commercial revenue.

Some proponents of public broadcasting contend that all the funding should all be concentrated in the provision of a single monolithic public service operator. If one were to design a public broadcasting system from scratch (e.g. from Rawls' 'original position') then perhaps such a model would be plausible. However, the range of public funding systems already institutionalised in the NZ media ecology makes wholesale reform problematic. Even for the neoliberal right, it would be politically unthinkable (not to mention legally impractical) to discontinue the hard-won provisions for Maori television. Radically reestructuring a well-established system such as the NZ On Air contestable fund could jeopardise the viability of the local production industry. Indeed, in an environment where competition for content rights is driving up operating expenses, this would probably destabilise the ability of the free-to-air sector to provide any sort of local content[17]. (This is not an excuse to disregard the structural limitations of such arrangements, of course, and in the current ecology the contestable system's lack of vertical integration and need for scheduling agreements makes it vulnerable to the very market failures it seeks to redress).

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[15] NB: 2009 data; Canadian$ converted into NZ$ at 2011 rates. The Nordicity data may not have included all the revenue streams not directed towards broadcasters and content, and was a little lower than the current MCH figures. On the current MCH data ($52.50 per capita), New Zealand would leap-frog Canada into 16th position and still be less than half the average $110 per capital provision. However, this in no way obviates the unfavourable comparison between NZ and similar smaller countries, and does not take account of the imminent demise of TVNZ7.

[16] Only the UK's Channel 4 was higher (100%) but this has a special PSB remit within the UK television ecology.

[17] The author acknowledges the value of Trisha Dunleavy's collegial discussions on these issues.

If one accepts the need for a not-for-profit public service television channel but also the practical difficulty of radically overhauling the existing funding arrangements, then clearly there is a need for additional public revenue streams. However, the National-led government is insistent that there is no budget for this, and the political right and many right-leaning news media are instinctively hostile to any proposal of further taxpayer provisions for public broadcasting. Indeed, the commercial broadcasting operators have lobbied hard against any sort of funding provision for which they are not eligible- even when there is no case for market distortion. For example, when Radio NZ argued for an increase in its funding (supported by the findings of an independent KPMG report), Brent Impey argued that it was 'galling' and 'outrageous' for a public broadcaster to ask for additional funding while its commercial rivals were suffering declining incomes in a tight economic environment, and suggested that public sector media ought to have their funding cut by 15-20% to level the playing field with the commercial sector (quoted by Drinnan, 2009). The fact that RNZ is a dedicated public broadcaster not competing for substitutable audience or revenue share suggests there is ideology, not just economics driving such indignant protests.

Underpinning most of the objections to funding public broadcasting are misconceived notions of the nature of markets, efficient pricing and consumer sovereignty. Orthodox economics typically conceives of markets as a naturally emergent state of affairs which are only 'distorted' out of their equilibrium by extraneous interventions (such as government regulation) which produce inefficiencies. The theological faith of the political right in the 'invisible hand' bears little comparison with Adam Smith's original formulation which recognised that the rational behaviour of market agents themselves could lead to inefficiency (e.g. through cartel arrangements or monopoly power). It is more useful to conceive of markets as constructed phenomena, rather than as a state of nature existing prior to regulatory arrangements or economic theories themselves. After all, markets presuppose property rights, monetary/credit systems and a range of complex institutional arrangements that shape economic policy and business practices. Markets are not an extraneous force of nature- they are created by people in specific political, economic and ideological contexts. In this regard, even 'deregulation' is another form of regulation informed by particular market theories and agendas. Any notion of 'distortion' or 'inefficiency' becomes problematic once the limitation of the naturalistic conception of markets is recognised.

That is not to disregard concerns from commercial media interests that some forms of government intervention may be unfair. Providing government funding exclusively to a publicly-owned broadcaster with a commercial function which uses the money to provide itself with a competitive advantage over rivals competing for substitutable audiences and revenue obviously risks creating an uneven playing-field. However, if the broadcaster thus funded primarily performs a legitimate civic or cultural function or influences the market in a positive manner (e.g. by setting high quality standards) then it is difficult to contend that this is intrinsically unfair to other commercial rivals. Opposition to *any* form of public broadcasting assumes that the operation of commercial markets naturally takes precedence over other media functions and that commercial operators' interest in profits therefore outweigh any public interest not defined in consumerist terms. The commercialisation and deregulation of the New Zealand media sector during the 1990s was nevertheless so extensive that such ideas do not seem outrageous to many politicians and media executives. In contrast, however, the UK model has historically operated on the basis that all broadcasters have basic public service obligations which their commercial functions have to accommodate. Although this paradigm been complicated by the growth of BSkyB and its politically negotiated circumventions of domestic media regulations, the point is that there is no *natural* default to a free market setting.

Another common neoliberal objection concerns consumer sovereignty. Funding public broadcasting is regarded as problematic in that it obliges the consumer to purchase a service (through licence fees or taxation) that they do not personally use and would not purchase if they had a choice not to pay. From this perspective, public service is merely a minority taste community who ought to pay for their own content preferences rather than 'free riding' on the taxpayer. Such sentiments are evident in the government's decision to allow Heartland and Kidzone to be carried exclusively on Sky. This ignores both the inability of some consumers to pay for services they need as citizens, and potential for market failure among wealthier consumers.

As consumers, however, we may individually prefer movies and sports to serious news and current affairs. Public service provisions address the collective needs of the public as citizens. As such we may nevertheless recognize that such provisions are important for society, even if we do not routinely use them ourselves. Indeed, a study by Synovate for the Ministry for Culture and Heritage (2007) demonstrated precisely such a tendency. Generally speaking, New Zealanders clearly recognize the benefits of public broadcasting to society as a whole, even when their consumer preferences as individuals are commercial. This undermines the common presumption of politicians and the commercial news media that the public is generally unwilling to support public funding for such services.

Although we might complain about taxation in general, few object in principle to the government spending public money on street lighting, roads, parks or schools and hospitals. Such market failures arise most obviously in the case of 'public goods' that are non-rivalrous (meaning that their consumption by one person does not preclude consumption by others) and non-excludable (meaning that it is impractical to prevent consumption by non-payers). In economic theory 'public goods' that are non-rivalrous (meaning that their consumption by one person does not preclude consumption by others) and non-excludable (meaning that it is impractical to prevent consumption by non-payers).

Broadcasting was traditionally considered a public good[18] because the cost of transmitting a signal does not increase if additional listeners/viewers join the audience, and excluding non-payers access to signal reception is difficult. It is also a merit good because by becoming better informed and better educated citizens through public broadcasting, there is an aggregate benefit to society as a whole. The legitimacy of providing public funding for broadcasting services was therefore relatively unproblematic in the days of free-to-air state monopolies. The expansion of commercial competition and the development of new digital platforms has complicated these assumptions[19]. The National-led government insists that public service television is merely a 'nice-to-have' and that, with the existing support for local content production, the proliferation of digital platforms coupled with increasing consumer choice will meet the majority of public needs without any need for public service media institutions. There are three major problems with this policy approach.

1) Audiences are only sovereign over the range of content and services that are made available to them by broadcasters. Ratings may be an index of relative demand, but they cannot gauge the latent demand for forms of content or services that are never made available, either because of perceived risk or because of the calculated opportunity cost of providing non-popular genres. NZ On Air's contestable funding attests to the recognition that local content provision is commercially irrational for broadcasters who can generate much higher margins by purchasing imported programming. The range of free-to-air content remains limited in some key genres, notably high quality news and current affairs, educational programming and minority interest content. The contestable funds are simply not adequate to off-set more than a small proportion of the opportunity costs that would be entailed by a full range of public content provisions.

2) It is important to note that 'free to air' advertising is not technically free, even if payment is not made at the point of reception. Although the producers pay for advertisements from their revenue, the costs are ultimately levied on all consumers who buy advertised goods, regardless of whether they actually watched the relevant programmes. In that regard, commercial 'free-to-air' television entails a form of corporate taxation on the general public well in excess of any government expenditure on public service media provisions. In effect, the $800-900 million a year spent on television and radio advertising each year in NZ (ASA 2009) gets passed onto the consumer as an invisible form of GST. This far exceeds the government's annual expenditure of $231m on broadcasting-related outcomes (MCH, 2010). In that regard, those who object to paying for public broadcasting on the pretext of consumer choice should object far more strenuously to the economic inefficiencies of obliging consumers of advertised products to pay for programmes they do not choose to watch. The fact that that this argument will doubtless seem obtuse to many is merely confirmation of how deeply neoliberal assumptions have become embedded in policy thinking.

3) Despite the Minister of Broadcasting's suggestion that those seeking diversity and quality could always subscribe to Sky (see Media 7, 2009) the public value of pay-TV is compromised by its lack of universal accessibility. Given that roughly 50% of NZ households subscribe to Sky, this shows that, contrary to the assumptions of many policy-makers, people are not satisfied with the range of content available on free-to-air platforms and many are able and willing to pay for a service so long as it provides something they value. The consumer is not obliged to subscribe if they feel the cost exceeds the benefit, but the fact that Sky requires consumers to pay for the standard programme package before any premium content can be accessed means that again, there is an inefficiency in obliging those who strongly desire live rugby or movies to pay for other content they do not necessarily wish to receive. Indeed, in other countries like Australia, premium content

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[18] In economic theory, 'public goods' are non-rivalrous (meaning that their consumption by one person does not preclude consumption by others) and non-excludable (meaning that it is impractical to prevent consumption by non-payers). This makes the provision of public goods difficult to provide on a commercial basis. See Thompson (2008c).

[19] On the one hand, digital media allow perfect replication of original digital content, hence the proliferation of online file-sharing, turning private goods into public ones. On the other hand, there is a countervailing force in the form of digital encryption and conditional access systems that turn public goods into private ones, including broadcasting signals. However, the fact that it is *possible* to provide broadcasting services as a private commodity does not mean they *should* be provided on that basis. In the digital media ecology, the reverse argument could just as easily be made. Indeed, although the proliferation of digital media technologies reduces some production and distribution costs, it increases others. The expansion and complexity of the media sector means that maintaining the level and functional effectiveness of public service provisions may require more public subsidy, not less.

such as live sports is subject to anti-siphoning regulation which ensure that events of national interest are treated as public goods and cannot be monopolised behind a pay-wall. Many consumers are willing to pay Sky's monthly rates ($47.66 for the basic package, $93.65 with the basic sports and movie packages, $152.53 for the premium sports and movies plus other specialist channels, and $219.22 for the Chinese and Hindi channels on top of that- excluding magazines and pay-per-view content). Although very few viewers would be willing to pay over $2600 per year for the entire range, it is apparent that people do not strenuously object for paying for packages of content containing material that they do not watch so long as they are receiving other channels that they do value.

The consumer sovereignty objections often raised in opposition to government funding of public broadcasting provisions could therefore be equally well applied to both commercial free-to-air and subscription broadcasting. It is also clear that substantial sections of the public are not opposed to paying more for television services, even when they do not watch most of it, so long as this provides some core material that is important to them. Indeed, if one examines Sky's financial figures, the annual report for 2010 shows that its total revenue is $741.8m. Sky's total annual operating costs and depreciation/ amortisation come to $566.8m (EBITDA is $287.5m). Of course, Sky does not provide a full range of content that one might expect from a public service operator (outside of sports, first-run local content is very limited, especially in-depth news and current affairs). But as a thought experiment, it is interesting to consider whether such a range of services could be funded publicly: Take Sky's combined operating costs and depreciation/amortization expenses: $566.8m. If that cost were divided between the estimated 1.648 million households in New Zealand (Statistics NZ, 2008), then the entire range of channels could be provided to the whole of New Zealand at a cost to each household of $344 per year; which works out at roughly $29 per month- less than a dollar a day, and that excludes advertising revenue[20]. Per capita (based on a population of 4.4 million) the cost would be $129 per year- around 35 cents per day.

Of course, this is an over-simplification, and it excludes many institutional complexities and material infrastructure such as studios (although facilities are already publicly owned), as well as the issue that people on low incomes may find any additional demands on their income difficult. But this is not a proposal to nationalise Sky- it is a thought experiment to show that, even if we cannot afford the BBC, funding a wider range of services is not as politically or economically unthinkable as many people find it expedient to assume. Further thought experiments of this kind can help to map out ball-park targets for funding models.

The cost of retaining TVNZ 7 in some form would cost an estimated $15-16m per year. Divided across 1.648m households, that would cost each $9.71 per year. Per capita, that works out at $3.64 each per year- less than a cup of coffee, or roughly one cent per person per day.

The amount needed to re-establish a public television channel not already in operational existence is difficult to calculate because there are a lot of unknown factors and contingencies. If TVNZ 7 closes, or even if were somehow amalgamated with another public service operation such as radio NZ, it would cost much more than $16m to re-structure or re-establish because its running costs are off-set by TVNZ's existing infrastructure, resources, programming and personnel. Maori TV receives $33.3m as a stand-alone operator (although it can benefit from other, contestable funding and generates some revenue from advertising). This would seem a reasonable base-line for a non-mainstream public service channel. In terms of additional funding, this would cost each NZ household $20.2 per year ($7.57 per capita).

If a larger-scale mainstream public service operation were desired, TVNZ's overall operational and amortisation costs (not including marketing and other peripheral expenses) were approximately $308m (TVNZ Annual report, FY2010). If the government funding of roughly $41.5m for FY 2010 (including the funding for TVNZ 6 & 7, plus subsidies from NZ On Air and TMP) is subtracted, that leaves $266.5m for the operation of TV One and TV2 which is currently covered by commercial revenue of one form or another. Leaving aside the logistical, institutional and financial complexities of Don Brash's recent suggestion that TV2 might be sold to fund TV One as a dedicated public broadcaster[21], let us suppose for the sake of the thought experiment, that the base cost of running a mainstream channel similar to TV One or TV2 as a dedicated, commercial-free public service would be roughly $133m per year. This translates into $80.70 per household per year, or

[20] With an additional $53.7m of advertising revenue, the operating and depreciation costs of Sky would cost $311 per household per year or $26 per month.

[21] One factor Dr. Brash needs to consider is Treasury's inevitable objections to the loss of shareholder asset value if a crown company that generates commercial returns foregoes that income. Other concerns include the unlikelihood of finding a good price for TVNZ in the current economic climate, especially given the likelihood that Ironbridge might wish to off-load MediaWorks, and also the logistical complexity of selling half a broadcaster with integrated operations. On a political point, it is worth noting that certain other members of the Act Party and the National Party hostile to the notion of public service would very likely support selling the entirety of TVNZ with no reinvestment in public service provision.

$30.20 per capita (expensive, but still less than a month's subscription to Sky with the basic sports and movie packages). This assumes no advertising and no other government funding streams.

Although the dual remit of the TVNZ Charter compromised the public service function, it must be remembered that the $15m subsidy was less than 5% of TVNZ's operating revenue, and even with NZ On Air funds, it remained 90% dependent upon commercial revenue. Commercial and public service priorities are antagonistic because they rationalise programming and scheduling decisions differently. However, other public service operators, such as Ireland's RTE, receive around 50% of their revenue from public sources. Crucially, this level of public funding is sufficient to achieve the 'critical mass' required to make a substantial difference to content decisions. If we allow for half the $133 base cost of a TVNZ-type channel to be generated by commercial income, this would still absorb many of the opportunity costs of carrying content with high public value but sub-optimum commercial margins to be absorbed and insulate many programming and scheduling decisions from direct market pressure. If one assumes $65m can be generated by advertising without completely compromising the public service mission, and allow for a further $20m of existing funding from NZ On Air and TMP, (see TVNZ Annual report FY 2010) then the shortfall would be roughly $48m per year. This would translate into $29.13 per household per year, or $10.90 per capita. This is less than a third of the cost of a one month Sky subscription with the basic sport and movie packages. Had the TVNZ Charter been backed with this level of funding from its inception it is unlikely that it would have been so badly compromised by commercial imperatives.

These projections are evidently speculative (see table below), but they suggest that the objections to either a non-mainstream or mainstream public broadcaster cannot be sustained on the basis of fears of exorbitant expense. Moreover, there is a good chance of gaining public legitimacy for new public funding streams if they deliver something distinct from the commercial mainstream, especially if they provide a range of content with strong appeal to the mainstream. New Zealand could afford a public television channel without needing $7 billion for a monolithic PSB service like the BBC.

Comparison of ball-park public costs of broadcasting services including hypothetical cases

Service Type	Annual Cost of provision (NZ$ millions)	Annual Cost per household [22]	Monthly Cost per household	Annual Cost per capita
Current government expenditure (all public broadcasting provisions)	**$231m**	**$140**	**$11.67**	**$52.5**
Sky Network TV- all services (not pay-per-view)	**$556.8m**	**$344**	**$28.67**	**$129**
TVNZ 7	**$16m**	**$9.71**	**$0.81**	**$3.64**
Maori Television Service (not including contestable)	**$33.3m**	**$20.20**	**$1.68**	**$7.57**
TVNZ-type public channel (fully funded)	**$133**	**$80.70**	**$6.73**	**$30.20**
TVNZ-type public channel (50% commercial funded plus contestable funds)	**$48**	**$29.13**	**$2.42**	**$10.90**

The shape of public funding mechanisms:

If one accepts the need for a given level of public funding for public television services, then questions still arise regarding the form and function they ought to take. Funding can be provided at different points of the value chain; production, content forms, aggregation, distribution and reception can all be usefully targeted, depending on the shape of the media ecology in question. The focus of this paper is primarily on the production institutions. There is insufficient space to examine all the possible models in any detail (a broader discussion can be found in the MCH report on public funding systems in the OECD (Thompson, 2005; also Thompson 2008b). Instead, some of the key characteristics of an effective public funding mechanism for public service media purposes will be identified, followed by a brief discussion of some interesting options that deserve further consideration by policy makers in new Zealand.

[22] Based on Statistics NZ (2008) estimate of 1.648 million households and 4.4. million people

Characteristics of effective public funding mechanisms:

1. Clear specification of desired functions and outcomes beyond commercial norm.
2. Sufficient levels proportionate to functions and desired outcomes (which may or may not entail contestability).
3. Transparency and accountability mechanisms/performance measures, and potentially revocable.
4. Insulation of programming/scheduling decisions from commercial pressures.
5. Ecologically sensitive to the shape of the media system and available at the point in the value chain most vulnerable to market failure.
6. Institutionally relevant in terms of incentivising desired behaviour and off-setting opportunity costs.
7. Avoids distortion of fair market competition where public broadcasters compete directly for substitutable audiences and revenue.
8. Legitimacy among stakeholders including public recognition of collective social benefits even if they are not direct users/consumers of the services.
9. Independence from bureaucratic capture and over-proximity/ dependence on clients/beneficiaries for legitimacy/political justification.
10. Future-proofed for strategic planning and inflation over medium-term, with levels subject to independent review.
11. Subject to periodic review of levels, functionality and proportionality by an independent body.
12. Hypothecation/ringfencing to insulate funding (and the delivery of outcomes) from dependence on government goodwill and/or transitory inter-portfolio budget limitations.

This list is not exhaustive, and not all funding arrangements will have to adhere to all these principles to be functional. Of course, broadcasting policy itself cannot be separated from government or insulated from the influence of other ministerial portfolios (most notably Treasury, Economic Development and Communications/IT) as different political agendas compete for priority and funding. Neither can it be completely insulated from the commercial influences of what remains a largely deregulated and increasingly competitive broadcasting ecology for which new digital developments are opening up new opportunities and new risks/ uncertainties.

Policy makers, politicians and broadcasters alike are often too hasty in their eagerness to dismiss the potential of alternative models. They often exhibit a palpable conservatism when confronted with proposals that seem unfamiliar or complex even when the current systems are themselves inefficient or insufficient. There is therefore a need to create the space for reflective policy debate wherein funding models capable of incentivising the desired content outcomes in a digital multi-platform environment can be debated.

Before making suggestions for particular funding mechanisms relevant to the New Zealand context, it is useful to note the range of models used in the OECD (see MCH study; Thompson, 2005, also 2008a&b).

1. *Direct appropriations*: Funding made available directly by government to a provider for a specified set of functions, as with the previous TVNZ Charter and (for now) TVNZ 7 (Also used in public broadcasting service contracts in Belgium and France).
2. *Indirect appropriations*: Funding made available to a provider for a specified set of functions through a funding body, which would include Radio NZ's funding via NZ On Air, or which may also entail the funding body setting the level of funding, rather than the government (e.g. STER in the Netherlands or the KEF in Germany).
3. *Licence fee*: a charge usually levied on each household capable of receiving a broadcast service which is then allocated to a public service broadcasting provider. In some cases, the fee is collected and distributed by a separate body; In Ireland, part of the licence fee that funds RTE is distributed on a contestable basis, and Ofcom in the UK is currently considering whether to 'top-slice' the BBC licence fee

to fund other public service providers. (In New Zealand, the public licence fee was rescinded in favour of a direct appropriation for NZ On Air in 1999.)

4. *Contingent Appropriations*: Funding made available according to either; a) commercial performance, with public funding increasing or decreasing to ensure that the provider is neither under-funded nor over-compensated for its public broadcasting functions, or b) public service performance, with the level of funding depending on the extent to which required public functions are satisfactorily fulfilled (VRT in Belgium, STIFO in the Netherlands, also see RTE's licence fee in Ireland).

5. *Contestable appropriations*: Funding made available to a range of providers, either on an individual programme basis (as with NZ On Air; also the innovation fund in Ireland) or on the basis of a contract to provide a range of specified content over a given period (currently being mooted by Ofcom in the UK) or even potentially as an entire contract to provide a generic public service (This option was evidently considered by Cabinet). The BBC's WOCC model has also made some funds available to bids from the independent production sector as well as its own producers.

6. *Industry levy*: Funding raised by a marginal or progressive levy on revenue generated by commercial broadcasters which is then redistributed to ensure the provision of commercially unattractive programming (i.e. a kind of 'polluter pays' principle applied to market failure in broadcasting). Examples include Finland (although digitalisation has changed this policy), ORTT in Hungary, and the original Channel 4 arrangement in the UK (although this allowed the commercial broadcasters to retain C4's advertising revenue). In Canada there is even a voluntary subsidy of a public affairs channel (CPAC) funded by commercial cable operators. Spain and France have also introduced levies on Pay-TV and commercial advertising.

7. *Commercial revenue redistribution*: Funding generated through advertising or commercial services by a public broadcaster collected by a regulator and then redistributed to fund public service functions. STER in the Netherlands regulates advertising on the public networks in this way, and the original UK Channel 4 model followed a similar principle of separating content/schedule decisions from any direct commercial benefit.

8. *Utilities levy*: Funding raised through either a fixed or proportional surcharge on public utility bills (e.g. electricity, telephone), sometimes in lieu of a separate licence fee. Greece and Turkey have versions of this mechanism, while France and Spain have recently adopted a levy system on telecommunication services.

9. *Audiovisual retail levy*: Funding raised through a surtax on audiovisual goods and services channelled back into public broadcasting, such as the Turkish 'banderolle' system. A variant of this system, placing a marginal charge on telecommunications and other media, has been developed in France and Spain.

10. *Broadcaster operating licence*: a fee paid by broadcasters to government or regulator for their right to broadcast, sometimes (but not always) linked to spectrum rights. Examples include Australia and Canada and also KRRIT in Poland. In the UK, commercial television operators incur generic public service obligations as a basic condition of their right to operate.

11. *Broadcaster concession*: an indirect funding mechanism whereby the government or broadcast regulator foregoes income from a broadcaster that would otherwise be due (e.g. tax or licence fee payments) in return for providing some form of public service function.

It cannot be assumed that any broadcasting funding mechanism that functions well in one national media ecology will translate smoothly and function effectively in any other context. The capacity of a funding mechanism to incentivise the desired broadcasting outcomes depends on the precise structural position it occupies within the wider set of institutional, economic and regulatory arrangements. However, given that the National-led government is currently operating on the premise that its tax base cannot be stretched any further, this suggests a need for an alternative revenue stream derived externally to provisions from the consolidated fund. Below is a set of potential public funding mechanisms with some brief comments about potential benefits and disadvantages. Again, these are not listed as recommendations but as options that might help to ferment progressive policy debate:

A. Levy on Commercial Broadcaster Revenue: based on the principle of 'polluter pays', this would help ensure that the media operators whose commercial operations contribute to market failures in the media ecology also contribute to off-setting those tendencies. A marginal levy could be imposed on advertising or subscription revenue streams, or on profits above a certain level. Although this would be resisted by

industry as an additional tax, one variant here might be to disburse the funds for high quality local content on a contestable basis so that commercial broadcasters willing to commission and schedule content that contributes toward public service functions would effectively receive a rebate. (Obviously commercial companies on very tight margins or in financial distress could be exempted: receivership provides no public value to anyone).

B. Must-Carry-Must-Pay provisions: Applied to subscription providers, this would oblige the carriage of free-to-air channels on their platforms and also the payment of modest licensing fees to the channel operators. This would alter the relationship between Sky and the free-to-air providers and make it possible to operate channels like Heartland and Kidzone on Freeview as well as on a pay-platform. Obviously Sky would object, but another alternative might be Must-Offer-Must-Pay[23] which would give the pay platform right of refusal, or perhaps allow an exemption from levy requirements in model A in return for paying licence-fees to free-to-air public service channels given carriage. It is interesting to note that the relation between subscription and free-to-air operators was intended to be one of the issues resolved by the Review of Regulation for digital broadcasting which the government canned in 2009.

C. Levy on Audiovisual Services and sales: Given the increasing convergence of digital media platforms, the distinction between telecommunications and broadcasting is no longer discrete. Imposing a marginal charge on telecommunication/internet services (for example, a small charge per gigabyte of internet downloads or a few cents on a cellphone pre-pay card) would generate a substantial amount of revenue without being perceived to be an intolerable imposition on the consumer. The telecom industry might object, but there is a strong argument for regulating their entry into the multi-media content-provider market, and this could be a condition. Insofar as small levies on widely-used services would be passed onto the consumer at levels that would be unlikely to provoke widespread resistance, this would also have the virtue of being fiscally neutral in terms of its impact on the government budget. Similar small levies could in theory be imposed on the cost of audiovisual/ information technology hardware. The main disadvantage to such systems might be complexity and collection costs that off-set the value of the revenue stream thereby generated.

D. Public Licence Fee: Although often dismissed as an unworkable system, the campaigners against the licence fee overstated its inefficiencies. The main issues to be overcome in reintroducing such a system and gaining legitimacy is consumer resentment of compulsion if the services provided are regarded as marginal and the difficulty of regressive taxation on lower-income groups. The former might be addressed by ensuring that the range of content included core content forms that would be desired by a wide cross-section of the public. For example, if anti-siphoning regulations were introduced and the rugby were made available on a free-to-air licence-fee funded channel then resistance would be much reduced. The latter could be addressed by exemptions/reductions for pensioners and the unemployed. Another possibility would be to allow consumers to forego the service and opt out of paying[24]. While that would be a problem for the level of funding for non-mainstream services where large numbers opted out, the cost of a mainstream-appeal service offering a range of quality content might be willingly accepted, especially if it was substantially cheaper than comparable services on Sky. Another variant might be a public trust with voluntary payments or public sponsorship, but in the absence of substantial corporate philanthropy, this would be unlikely to provide much beyond a marginal special-interest channel for those who could afford it.

E. Direct Appropriation with Split Commercial/Public Funding: This would be based on a direct public funding stream to a designated public service provider which would also carry advertising. However, rather like the original Channel 4 model in the UK, the revenue generated by the advertising would be returned to the Treasury (or go into a contestable funding pot). Although institutionally complex at first glance, the virtue of this model is that the broadcaster thus funded has no direct incentive to shape programming and scheduling decisions around commercial margins and seek to optimise ratings and revenue. These are welcome if achieved, but they are incidental to operational decisions which are thus insulated from direct commercial pressure. Meanwhile, the cost of direct appropriation to the Treasury could be off-set by the return of any commercial revenue generated. Although this could complicate government budget projections, the average returns would soon be estimated. There is a risk that this could expose the broadcaster to pressure from Treasury to optimise commercial revenues with the same outcomes as the TVNZ Charter with dividend expectations. This could be avoided by having an independent intermediary such as NZ On Air manage both revenue streams.

F. Combined funding model: Another possibility is to implement multiple small-scale revenue streams which combine to create a larger pool and allow a more substantial commitment to a public television channel. Such a model would be complex, but it may be easier to implement multiple, small revenue-collection

[23] William Earl is acknowledged for an informative discussion on this model.
[24] Jeremy Rose is acknowledged for an informative discussion on this model.

streams which generate minimal opposition to public or industry stakeholders than to win support for a more substantial funding mechanism that is contested politically and legally by vested interests.

It is interesting to note that both France and Spain have recently moved towards combined levy-based funding models for PSM in conjunction with the removal of advertising from their main public service television services (Semova, 2010; Europa, 2010). In France, advertising on the 6 France Televisions channels began to be phased out from January 2009 and is due to be completed by November 2011 when DSO is also scheduled. This accounted for 25-30% of FT's revenue, with the rest coming from state subsidies. In its place a 0.9% levy has been imposed on electronic communication service provider revenues (including telephone and internet), and a 3% levy on commercial TV revenues over 11m Euros (who in return are entitled to additional commercial breaks, picking up some of the commercial revenue foregone by FT). The levy is technically allocated to the state budget before being redisbursed to FT.

In Spain, meanwhile, The 2009 RTVE Financing Law rescinded the broadcaster's right to carry advertising and also limits its rights to bid for some commercial sports events (Semova, 2010). In its place, there is a 0.9% levy on telecommunication revenues, a 3% levy on national commercial television broadcasters, and a 1.5% levy on pay-TV revenue (with the commercial TV operators picking up much of the advertising revenue foregone by RTVE). These new arrangements have not been without controversy and legal wrangles mainly in relation to European Commission regulations on public funding (notably the Amsterdam Protocol and the Audiovisual Media Services directive). So what would this look like applied to NZ? The 2010 annual reports for Telecom NZ show gross earnings of $5.271 billion and $258m respectively. If a 0.9% levy on gross revenue was implemented, this would generate over $50m[25]. Meanwhile, a 1.5% levy on pay TV applied to Sky's gross $742m revenue would generate $11m, while a 3% levy on the $613m generated from television advertising (ANZA 2011) could provide a further $18m. If adopted in New Zealand, the funding mechanisms adopted in France and Spain could generate approximately $80m on aggregate- more than sufficient to operate a public service channel. The levy on advertising might be problematic because it could reduce the money available to the broadcasters without increasing the overall advertising spend, but the levies on telecom-based services and pay television would be passed on to consumers. Although there would be inevitable objections, even a 1.5% increase is considerably less than both the rate of inflation and Sky's revenues, which are reported as having increased by 7% to $796m up to June 2011 (Business Day, 2011). Importantly, these revenue streams would be fiscally neutral in respect to existing government budget commitments because they generate revenue from outside the consolidated fund.

The above funding models outlined here are intended neither as prescriptions nor as magic bullets. They are however, intended to sketch out the boundaries of possibility within which workable solutions might be developed and it is certainly hoped that they will provoke some discussion toward that end. The specific institutional arrangements required to implement any of these funding models lie beyond the scope of this discussion paper. However, it is apparent that there is a pressing need for a broad reappraisal of public broadcasting provisions in New Zealand and consideration of how core public service functions can be met in a digital multi-media environment. This requires consideration not only of alternative funding models, but of the shape of regulatory provisions and the overall shape of the changing media ecology. After its efforts to shut down the review of regulation, the current government may not be well disposed toward reopening such a debate. It therefore falls to the stakeholders from industry, academia, political parties and the general public who recognise the value of public service provisions to come together and ensure it happens.

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[25] Revenue data for Telstra-Clear and Vodaphone was not available at time of writing so they are not taken into account here.

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