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Running on Empty?

The uncertain financial futures of public service media
in the contemporary media policy environment

Peter A. Thompson
University of Wellington

This chapter provides an overview and analysis of public service media (PSM) in the context of the digital multimedia environment. Media convergence on a technical level and the proliferation of new distribution platforms have accentuated the fragmentation of audiences and revenue streams and brought formerly discrete markets into increasingly direct competition with each other (particularly in respect to online content). At the same time, the near-global ramifications of the credit crunch have driven many economies into recession and restricted advertising expenditures (Advertising Standards Authority (ASA) 2009; Benady 2009). Taken together, these trends have intensified competition for revenue among commercial media and accentuated the critical scrutiny of PSM institutions and funding mechanisms. The chapter argues that the political right and commercial media interests have sought to circumscribe the market spaces in which public service operators are able to compete for audiences and, in some cases, directly sought to delegitimize their public revenue streams. These challenges to the continued legitimation of public funding mechanisms for public service broadcasters/media providers will be explored through case studies of public service broadcasters/media providers in the United Kingdom and New Zealand. Although these are very different countries, notably in respect to the size of their respective populations and media markets, both underwent extended periods of neoliberal macroeconomic reform during the 1980s and 1990s followed by a decade of “third-way” policy responses. Since the “credit crunch,” both have reverted to free-market approaches under new center-right administrations. In this respect, the political-economic structures and recent policy trajectories in the United Kingdom and New Zealand exhibit similarities. However, these cases also demonstrate that understanding the way macro-political-economic pressures are articulated into specific policy outcomes requires detailed examination of specific institutional arrangements, and the cases of the United Kingdom and New Zealand are exemplary in this regard.

Theorizing contemporary PSM

The majority of countries in the OECD have some kind of PSM provisions supported by some form of noncommercial revenue streams (see Thompson 2005; Iosifidis 2007). These capitalist economies also underwent significant shifts in macroeconomic policy paradigm toward neoliberalism/monetarism during the 1980s and 1990s. This has entailed an intensification of pressure on governments to scale back public spending and State involvement in the economy in order to accommodate the imperatives of the financial and industry sectors. This has continued despite the resurgence of “third-way” governments because social democratic initiatives have been circumscribed within the policy space that remains after market imperatives have been accommodated (Thompson 2000; Comrie and Fountaine 2005; Williams 2007). Public broadcasting policy has inevitably been embroiled in policy tensions stemming from these shifts because the media sector is both a driver of economic growth and a vital facilitator of cultural and democratic functions.

There has been a wide range of scholarship on the shaping of media policy across a range of national contexts (see e.g. Bardoel and d’Haenans 2008; Hoynes 2003; Iosifidis 2007; Jakubowicz 2006; Moe 2008; Syvertsen 2003; Van den Bulck 2008). On a broad level of approximation, these studies point to a policy trajectory away from traditional public service toward the neoliberal, market-driven paradigm. Public service models have certainly been challenged by market liberalization, the expansion of commercial competition, and the proliferation of new media platforms. However, the specific regulatory, financial, and institutional arrangements that have emerged from the accommodation of market imperatives have also varied across national contexts and have generally stopped short of wholesale withdrawal of State intervention in the media sector. Indeed, governments continue to provide subsidies to public service providers, as the 1997 Amsterdam Protocol permits them to do, but only insofar as they are proportionate to specific PSM functions and do not inhibit commercial market activity. The European Commission’s “classic” 1989 *Television without Frontiers* (TVWF) has been updated and renewed by the 2007 *Audiovisual Media Services* (AMS) directives (see Williams 2007; European Commission 2009). Overall, the importance of public service has been reasserted, albeit without inhibiting commercial media development.

There is an obvious tension between the assumption that new media technologies and the proliferation of services have rendered traditional public service broadcaster/broadcasting (PSB) provisions redundant and the reassertion of the continuing need for comprehensive PSM provisions across new platforms. However, the more significant policy discourses are those that ostensibly acknowledge the need for PSB but seek to quarantine its functions to traditional broadcasting or services that are not otherwise commercially viable (see Jakubowicz 2006). As will become apparent, in some cases, the

political right and private media operators may well support the continuation of public revenue streams while arguing that these should be used to support the commercial media sector.

Neo-Marxist accounts of how capital accumulation imperatives seek to colonize lifeworld spaces remains important in highlighting how political-economic macrostructures shape the arenas in which media ecologies are formed. However, these macrostructures can be articulated in different ways through the interplay of evolving institutional interests within a particular arena of activity (see Hindess 1989; Flew 2006, Van den Bulck 2008). Media systems, therefore, cannot be understood solely in terms of mechanistic responses to structural imperatives such as profit maximization. It is also the case that ostensibly similar political-economic forces may be manifested in different ways across different contexts, national or otherwise. Pearce (2000) warns that institutionalist analysis of media systems can sometimes overstate the instrumentality of agents. However, the recognition that regulatory and financial conditions are not simple determinants of institutional behavior need not imply that they exert no constraint on the channels and modalities of action available to institutional agents in a given context. The recognition that mythologies and discursive forms shape policy debates and contests of legitimation is not an alternative to political-economic analysis but a central component of it (e.g. see Born 2003, 2004; Mosco 2004; see also Chapters 11 and 12 in this book).

Indeed, policy discourses on public broadcasting funding mechanisms play a significant role in structuring what forms of public service provisions and revenue streams are politically available and sustainable. Lobbying by private commercial media and criticism from the political right has often targeted PSM funding systems in an attempt to foreclose policy alternatives that do not align with their interests. Such macro-policy frameworks may nevertheless play out differently across different national/institutional contexts. The UK and New Zealand cases are by no means atypical here, but the way PSM funding policies have played out in response to ostensibly similar political-economic pressure makes for an interesting comparison.

PSM in the UK context

The UK broadcasting system is often cited as an exemplar of PSM provision. In the predigital era, the BBC's central role in the broadcasting ecology was supported by Channel 4's complementary remit as well as the generic public service obligations incurred by private commercial television broadcasters as a condition of their operating license and allocation of spectrum. The BBC's domestic services remain fully funded through the hypothecated license fee, providing public revenue of approximately £3,600 million per year. The BBC has also been a key player in the development of free-to-air terrestrial digital

services on the Freeview platform and has developed a range of online services. However, the scope of the BBC's services and the scale of its funding have been subject to increasing scrutiny by governments, commercial rivals, and (since 2003) the new integrated regulatory body, Ofcom. In 2007, the BBC Trust replaced the former board of governors. The trust plays a role in approving higher level fiscal decisions and ensuring the BBC's accountability to its Charter through public value tests and service licenses that set out the scope of BBC functions. However, it has been criticized for being more sensitive to external pressures than the former governing board (see e.g. Fisk 2009).

The BBC's continuing receipt of the hypothecated license fee (currently confirmed up to 2016) has been increasingly viewed with envy and resentment by the private media sector. Commercial operators have struggled to sustain margins in a digital multimedia market, particularly given that the ITV operators continue to shoulder public service obligations (see Williams 2007; Collins 2008; Christophers 2010). There has also been recognition in government and in Ofcom that a well-endowed BBC and the faltering fortunes of the commercial ITV companies (and Channel 5) offer a pretext for relieving the latter from some or all of their public service obligations and/or "top-slicing" the license fee and redirecting a proportion toward offsetting the opportunity costs associated with these functions. Meanwhile, other private commercial operators have argued that the BBC's expansion into digital and online services has inhibited commercial investment and development.

This was exemplified by the 2009 MacTaggart lecture given by the CEO of News Corporation (Europe), James Murdoch, in which he alleged that the BBC, Channel 4, and Ofcom are unaccountable and condemned "the dampening effect of a massive state-funded intervention which reduces the scope for program investment and commissioning from independent production companies by private broadcasters" (Murdoch 2009). He also criticized the BBC's expansion of services into new digital platforms, arguing that "rather than concentrating on areas where the market is not delivering, the BBC seeks to compete head-on for audiences with commercial providers to try and shore up support—or more accurately dampen opposition—to a compulsory licence fee." Moreover, Murdoch claimed that "the expansion of state-sponsored journalism is a threat to the plurality and independence of news provision, which are so important for our democracy." In his eyes, the BBC's extensive online content restricts commercial operators' ability to charge for content.

Murdoch's criticisms reflect institutional self-interest. They also characterize the rhetoric being deployed against PSM and State involvement in the media sector. Although the BBC's director general, Mark Thompson (2010b), has rejected Murdoch's claims, the argument that the scale and scope of BBC services have a detrimental impact on the UK media market has nevertheless gained ideological traction within industry and policy forums prioritizing economic growth in new media markets (see Cox 2004; Elstein, Cox, Donohue,

Graham, and Metzger 2004; the Digital Britain report (BIS/DCMS 2009); also Grade, as cited in the *Guardian* 2010).

Ofcom's approach to media policy is significant here. As Williams (2007) suggests, Ofcom's establishment and approach to governance reflect the New Labour predilection for pursuing social-cultural policies through market mechanisms. Williams also points to increasingly proximate linkages between regulator, industry, and government, which can align to promote or inhibit particular policy ideas. Such alignments are consistent with Flew's (2006) arguments about policy activism by nongovernment agents and Collins' (2008) contention that Ofcom's "regulatory discretion" has effectively outsourced some areas of broadcast regulation to industry stakeholders (see also Graham 2005). Ofcom's broad regulatory function is complicated by a technically complex and rapidly evolving digital media sector, which makes it difficult to anticipate every eventuality requiring governance decisions. Regulations, therefore, require adaptation in response to unfolding scenarios, increasing the need for stakeholder consultation to avoid policy being implemented unfairly or inconsistently. In turn, this provides a vector through which the discourses of industry stakeholders can potentially influence regulators and increases the risk of bureaucratic capture if regulators or government come to depend on industry support for policy legitimacy. As Van Cuilenburg and McQuail (2003) observe, "The specific content of government policies reflects the deal made in the particular time and place and the balance of power and advantage between government and industry." Although contingent and subject to contestation, such "deals" or "policy settlements" (Flew 2006) serve to demarcate the parameters of legitimate policy intervention.

The recent policy negotiations concerning the BBC license fee need to be understood in the context of the above processes. As Graham (2005), Smith and Steemers (2007), and Collins (2008) have all noted, there has been increasing pressure on government and Ofcom from the private/commercial media sector for a reduction in their public service obligations and/or to rein in the BBC's scope of functions and level of funding. This is not limited to the BBC's traditional broadcasting rivals. The British Internet Publishers Alliance has also vigorously argued that the BBC's online presence inhibits commercial investment in services. As Smith and Steemers observe, "In positioning itself as a content provider whose content will be available on demand on myriad future platforms, the Corporation is impinging on what commercial operators believe is their future route to profitability" (Smith and Steemers 2007: 52).

Although Ofcom emphasizes the continuing importance of the BBC, it has not been unsympathetic to the view that shifts in audience composition, revenue streams, and the commercial value chain are increasing the opportunity costs of public service provision, particularly for the ITV broadcasters. Christophers (2010) has pointed out that the five main terrestrial free-to-air television channels slipped from a 95 percent audience share in the 1990s to 70 percent

in 2006. Although the continuing value of mass audiences offsets the decline in commercial revenue available to the mainstream commercial media, the distribution of advertiser money (already tightened by recession) across a wider range of platforms has lowered profits and increased the opportunity costs of public service provision. Ofcom's 2009 report on public service noted a decline in PSM investment across almost all the major television operators, *including the BBC*. Freedman (2008) points out that, even if one accepts that commercial media are facing intensified competition, there is no clear evidence that the BBC's operations "crowd out" commercial operators. Indeed, as Davies (2005) argues, the decline of ITV's audience share and revenue base is because of the expansion of BSkyB, rather than the BBC, whose license fee as a proportion of the overall revenue in the broadcasting/media sector has actually declined.

Although Ofcom is sympathetic to calls to release private sector media operators from public service obligations, it is also cognizant of the benefits of maintaining a plurality of platforms and providers making a contribution to the overall public service provisions (particularly in regard to regional news, current affairs, factual/educational content, and children's programs). The media ecology would certainly be weakened were it to evolve in such a way as to leave the BBC as the monolithic public service operator while any such responsibilities among the private commercial media were allowed to atrophy. As Graham (2005) observes, Ofcom is inclined to regard plurality and competition as desirable policy ends in their own right and has actively explored the possibility of "top-slicing" the license fee and redistributing a proportion to support other broadcasters' PSM obligations¹ (Graham 2005; Freedman 2008).

The UK government's 2006 White Paper on the BBC (Department of Culture, Media and Sport (DCMS) 2006) confirmed the continuation of the license fee arrangement up to 2016. It explicitly acknowledges the significance of PSM, but it also redefined the scope and normative underpinnings of the corporation's services and license fee. In line with the TVWF and AMS directives, the BBC is required to specify its range of services with regard to market impacts to justify its receipt of public funds. The White Paper also confirms the BBC's obligation to maintain a minimum 25 percent content quota commissioned from the independent production sector. Since 2007, this has been augmented by the BBC's development of the Window of Creative Competition (WOCC²), which aims to commission a further 25 percent over and above the statutory quota.

The 2006 White Paper also tasked the BBC with driving digital development and promoting digital take-up among the public to enable digital switchover. Freedman (2008) argues that this will divert £600 million of the license fee and extend the political role of the BBC into delivering government policy outcomes. Nevertheless, this role was invited by the BBC in its license fee negotiations with the government and Ofcom. Indeed, the BBC's lead role in

Freeview was also understood by the BBC management as insulation from any shift away from the license fee to a subscription model because the technical standards were not suited for adaptation to pay TV (see Born 2004; Smith and Steemers 2007). This nevertheless underlines the normative shift in the basis upon which the license fee is legitimated between government, Ofcom, and industry. The implicit premise of the White Paper's support for the BBC's continued existence is its subsidy of the commercial broadcasting sector. As Freedman (2008: 169) surmises, such a policy framework is likely to "enshrine the corporation in market logic."

Ofcom has emphasized the need to support key content genres and had encouraged the BBC to form collaborative partnerships with other operators (involving the sharing of production facilities) to help sustain regional content (particularly news). In March 2009, the BBC signed an MOU with the ITV network to share news production facilities, ostensibly conferring up £120 million total value on its commercial rival. However, ITV chair Michael Grade (2009) has questioned the viability of the logistical restrictions and suggested that the £120 million value notionally allocated to regional news was exaggerated to dilute demands for top-slicing (cited in Holmwood 2009b). BBC director general Mark Thompson has publicly challenged Ofcom's "ideological" drive to top-slice the license fee, although Ofcom CEO Ed Richards rejects such allegations (cited in Holmwood 2009a).

The government's 2009 Digital Britain report (BIS/DCMS 2009), meanwhile, acknowledged that the BBC's partnerships are a positive development but suggested these measures may not be sufficient to compensate for intensifying commercial pressures. Given the reluctance of government to develop new funding mechanisms, the report argued that the license fee may need to be utilized differently. It endorsed top-slicing to provide a contestable fund independent of the BBC's editorial influence, arguing that "It is clear that funding could achieve substantially more per pound of input in the hands of new operators using new media than to sustain a legacy broadcast network and studios for regional news built in and for the days of surplus in the system" (BIS/DCMS 2009:142).

This is a contentious claim. The notion that a taxpayer pound invested in new commercial digital media services will provide greater public value than a pound invested in the BBC's commissioning of independent content under WOCC presupposes that public value includes economic expansion of the private media sector. This overlooks the relative inefficiency entailed by private operators' need to pay returns to shareholders that cannot be reinvested in production. Public subsidy of commercial PSM provision, therefore, entails an opportunity cost to the taxpayer.

The Digital Britain report (BIS/DCMS 2009) correctly points out that there is, in effect, already a precedent for redirecting some of the license fee to functions/actors external to the BBC, notably in regard to the funds being

devoted to digital switchover. The independent production quota and WOCC commissions, and the BBC's planned partnerships with the commercial sector might arguably be regarded as a precedent to "top-slicing." In some respects, then, the redistribution of the license fee is already underway *within* the current hypothecated system, and what the BBC is fighting to retain is its degree of allocative control over this proportion of funds. Indeed, the recent growth in financial market interest in the independent production sector (Christophers 2010) reflects the recognition of opportunities to extract surplus value from commercial ventures subsidized by public revenue streams.

In October 2010, the new coalition government's Comprehensive Spending Review (CSR) announced sweeping cuts to spending across several public sectors, including broadcasting. Although the BBC persuaded the government to drop a proposal obliging free service provision to over-75s (at an annual cost of £556 million), the license fee has been frozen until 2016 and significant new financial obligations have been imposed, diverting part of the license fee to non-BBC services and government policy initiatives (Hewlett 2010). The *Financial Times* (2010) notes that these include an additional US\$230 million subsidy of digital switchover costs for poor people by 2012, a £530 million subsidy of rural broadband expansion by 2016, and an ongoing responsibility for funding the BBC World Service³ and the BBC Monitoring Service (costing £300 million per year) as well as the Welsh Language Service, S4C (costing £102 million per year). Although budget cuts will reduce the notional cost to the BBC to £340 million, the decision potentially constitutes an effective 16 percent reduction in the BBC's real spending power. Mark Thompson has suggested that the decision retains the BBC's independence and prevents it from becoming just another "arm of the welfare state" (quoted in Hewlett 2010). This seems disingenuous, however, because the CSR policy decisions effectively rescind the license fee's hypothecated status and subject it to arbitrary revisions just like any other State departmental budget.⁴

Despite the consequences of the CSR, the emergent media policy trajectory does not follow the standard neoliberal predilection for removing State interventions (see Jakubowicz 2006). Rather, the continued provision of PSM is legitimated within the nexus of government, regulators, and industry, but the normative premise underpinning State intervention has shifted away from serving the public interest toward subsidizing other areas of government policy and economic growth in the private media sector.

PSM in the New Zealand context

The neoliberal macroeconomic reforms New Zealand underwent from the mid-1980s onward went further than in most European countries (see Kelsey 1993; Jesson 1999). An abbreviated background on the impact this had on the

broadcasting sector is needed to contextualize contemporary developments. Up to 1988, the main public broadcaster was BCNZ, which encompassed Television New Zealand (TVNZ) and Radio New Zealand (RNZ). BCNZ received a hypothecated public license fee supplemented by commercial advertising. Although private commercial competition in radio had been formally permitted since the 1970s, TVNZ remained a State monopoly. In 1988, BCNZ was split and RNZ and TVNZ became separate State-owned enterprises. As state-owned enterprises (SOEs), their primary statutory function was to operate as businesses and return dividends to the Crown.

The 1989 Broadcasting Act introduced commercial competition into the television sector for the first time in the form of TV3. The Broadcasting Commission (NZ On Air) was set up to fund proposals for local audiovisual content, and the license fee revenue was diverted to this function (although this was abolished in favor of a direct appropriation in 1999). NZ On Air set up a contestable fund for which both local broadcasters and independent producers were eligible, with the majority of this money being directed toward television programming (NZ\$34 million in 1989 and NZ\$91 million in 2009; NZ On Air 1990, 2009). However, the contestable fund requires the agreement of a national television network to screen the content, which means that the broadcasters can effectively veto applications where the opportunity costs of screening are deemed unattractive. Coupled with NZ On Air's decision to focus its limited funds on underprovided genres (including drama and children's content but excluding news and current affairs), this meant that the contestable funding mechanism never addressed a full range of PSM objectives. Indeed, it remained vulnerable to the commercial pressures for which it was intended to compensate (see Thompson 2000, 2004; Cocker 2005; Bardoel and d'Haenans 2008). Insofar as NZ On Air's establishment recognized the potential for market failure, the contestability principle was a concession to the neoliberal concern to ensure that State intervention avoided market distortion.

The 1990s saw further deregulation with the removal of restrictions on foreign media investments and key free-trade agreements with Australia (Closer Economic Relations (CER)), and the international GATS deal, which included agreements on audiovisual goods and services. Apart from basic competition laws overseen by the Commerce Commission and content standards overseen by the Broadcasting Standards Authority (BSA), there are very few limitations on advertising or cross-media ownership. The domestic media sector was, therefore, left open to international competition and media ownership, and the free-trade agreements effectively precluded the introduction of local content quotas. This paved the way for overseas corporate ownership of the majority of domestic media and, notably, the establishment of Sky Network Television, the satellite subscription television provider that is now the largest broadcasting operator in New Zealand. By the end of the 1990s, the National-led government

was planning to privatize TVNZ, but the 1999 election saw a new Labour government come to power espousing a “third-way” approach that promised to redress the neoliberal excesses of the preceding 15 years. In contrast to the UK situation, the challenge was not primarily to defend the public service *status quo* from erosion but to regenerate it in a heavily liberalized and commercialized media market.

The New Labour approach to broadcasting came under challenge from the private media sector and the political right almost from its inception. It explicitly recognized the market failures of a heavily liberalized commercial media sector, but its third-way approach led to difficulties reconciling public service and commercial media imperatives. Reregulation focused primarily on the State broadcasters, leaving the commercial operators largely alone (see Thompson 2000; Comrie and Fountaine 2006). Policy tensions emerged between the Ministry for Culture and Heritage (MCH), the Treasury, and the Ministry for Economic Development (MED), which all had rather different priorities for the sector, and these were further complicated by the shifting interests of various broadcasting actors. The centerpiece of Labour’s broadcasting reforms was the 2003 restructuring of TVNZ as a Crown Company with a dual remit comprising of a wide-ranging public service Charter and a continuing expectation of commercial dividends. This was accompanied by a government commitment to provide a modest direct subsidy to TVNZ (up to NZ\$15 million per year, representing less than 5 percent of its operational expenses). Importantly, the range of public service functions covered by the Charter extended beyond the local content genres subsidized by NZ On Air, and this was made explicit in MCH advice on the Charter funding to the Minister (MCH 2002; Thompson 2004).

The move to implement even this modest level of direct funding was opposed by several institutional stakeholders. Because TVNZ remained dependent on commercial revenue (90 percent including both Charter money and content commissioned through NZ On Air), it continued to compete directly for substitutable audience share and advertising revenue. Consequently, its private commercial rivals understandably regarded the direct Charter subsidy as constituting market distortion because, unlike the NZ On Air contestable fund, they were ineligible to apply for a share. Mediaworks (the operator of TV3 and C4 as well as a range of radio stations, currently owned by Ironbridge Capital) was particularly aggrieved. As its (then) CEO Brent Impey argued, “Do we really believe the Charter was meant to provide an unfair advantage so the state broadcaster can take local programming from other broadcasters? ... [TVNZ] seems more interested in beating the competition instead of adding to the fabric of New Zealand” (Impey 2003). Meanwhile, the independent production sector lobby was concerned about the direct funding for the Charter because they considered this a revenue stream that would be retained for TVNZ in-house productions rather than made available to external bids. NZ On Air was also

privately concerned about the Charter appropriation because they regarded direct broadcaster funding as an important policy shift away from their own contestable fund model and hence a threat to their institutional status, not least because TVNZ was lobbying to have its contestable fund redirected to Charter functions on the pretext that it was the only television operator with such obligations. As Thompson (2004, 2007) has pointed out, despite TVNZ's appeals to the government for a discontinuation of its commercial dividend obligations, the dual remit meant that TVNZ was literally being given money through the MCH only for the Treasury to claim it back, leaving it with a net subsidy that was actually *negative*!

It is interesting to note that while these political tensions were unfolding, the legitimacy of two other public sector broadcasters was left largely unquestioned. RNZ's direct subsidy (administered by NZ On Air and at over NZ\$30 million, twice the level of the TVNZ Charter subsidy) was not (then) perceived to be distorting the market because RNZ did not compete for substitutable audience share and commercial revenue.⁵ Meanwhile, the Maori Television Service (established in 2003) receives funding from both the Ministry for Maori Affairs Te Mangai Paho (the Maori equivalent of NZ On Air), each worth approximately NZ\$16–17 million per annum. Although MTS does carry a small amount of advertising, this represents less than 5 percent of its revenue (almost the inverse of the TVNZ ratio). However, because MTS's primary function is the promotion of Te Reo (the indigenous language), it is likewise not generally regarded as competing for substitutable audience share and revenue.

Meanwhile, the challenges to the legitimacy of TVNZ's public service provisions have continued in regard to digital television. Interestingly, its self-proclaimed mission of "inspiring on every screen" and extending its services online (and via cell phone) through program catch-up services (TVNZ Ondemand [sic]) has proven to be remarkably uncontroversial in contrast with the concerns surrounding the BBC's expansion of services. However, TVNZ's lead role in the development of the NZ version of the digital Freeview platform has not escaped controversy. Freeview (NZ) is essentially identical to the UK version, and it operates on both DTS and DTT. Its development involved a consortium of free-to-air broadcasters, including TVNZ, MTS, RNZ, and Mediaworks.⁶ The government regarded Freeview as an important initiative to encourage household take-up of digital reception technology in preparation for the (still unspecified) digital switchover. To this end, it agreed to invest NZ\$25 million in supporting the technical infrastructure developments and provided free spectrum licenses to operators. However, there was political disagreement behind the government's decision to allocate NZ\$79 million over 6 years to fund its two new commercial-free digital channels, TVNZ 6 and TVNZ 7,⁷ and help drive the uptake of Freeview.

Despite the fact that this funding largely comprised the drip-fed return of a special NZ\$70 million dividend TVNZ had paid to the Treasury as part of a

2006 capital restructuring exercise, different ministerial imperatives threatened to derail the initiative. As Thompson (2007) points out, the MCH supported the subsidy because the commercial-free TVNZ 6 and 7 would enable the development of distinctive schedules to enhance Charter provisions (although the funding streams were to be kept separate). The MED also supported the subsidy, but this was premised on an independent report showing that an early analog switch off by 2015 would help stimulate the digital media sector—a development estimated to represent over NZ\$200 million in economic growth. The Treasury, however, initially refused to approve the funding, arguing that it did not regard the investment as good (public) value for money (see Office of the Minister of Broadcasting 2006). High-level cabinet negotiations and recognition that the TVNZ dividend would decline were it obliged to subsidize both channels in their entirety from its commercial revenue eventually pushed the decision in TVNZ's favor. This reveals the complex institutional tensions between different Ministerial interests and indicates the differing contextual rationales underpinning the legitimization of PSM arrangements.

Nevertheless, when the funding decision was announced, it was immediately criticized by Mediaworks, which complained that the subsidy constituted market distortion. Brent Impey suggested TVNZ's funding represented "the use of taxpayer funding to subsidize a failing commercial business—it essentially amounts to a bail-out" (Impey 2006), while Rick Friesen, the head of TV, argued that they would have been willing to provide a service comparable to TVNZ 6 and 7 had they been permitted to bid for it (Friesen 2007). These arguments are significant because they represent a shift in the normative assumptions underpinning the legitimization of PSM provisions in the private commercial sector. Mediaworks' criticism was aimed at commercial-free PSM services on a platform that was still very limited in audience uptake and would not be competing for substitutable audience share or advertising revenue. This suggests an increasing sense of entitlement, implicitly assuming that *any and all* PSM funding distorts the market unless it is made contestable. Interestingly, it is the contestability rather than the actual allocation that appears to be the point of contention (TVNZ is not criticized for being the end beneficiary of the lion's share of the NZ On Air funding).

By the end of 2008, TVNZ's Charter and public funding arrangements had been roundly criticized by the government, the opposition, and its commercial rivals. This largely reflected the complex dual PSM/commercial remit and a level of funding disproportionately small compared with the expectations the Charter's scope engendered (see Thompson 2004; Comrie and Fountaine 2005; Lealand 2008). However, TVNZ was also complicit in undermining its own position because of a lack of transparency over the way it was using the funding. In 2008, a new National-led government was elected. It moved quickly to redirect the NZ\$15 million Charter funding (which had never been hypothecated in the 2003 TVNZ Act) to NZ On Air, establishing a second

contestable “Platinum Fund” to enable commissioning of more specific PSB-type content (NZ On Air 2010). This was welcomed by NZ On Air as well as the independent production sector and TVNZ’s commercial rivals. The minister of broadcasting has argued that in the digital broadcasting environment, there is no need for a dedicated PSM provider so long as high-quality content is made available (Media 7, 2009). The new fund, however, remains subject to many of the structural limitations of the local content fund in that proposals require an agreement to broadcast and cannot ensure content decision are insulated from the imperatives of commercial scheduling.

Another recent development has been the commercial radio sector’s challenges to RNZ’s requests for additional public funding to maintain its services. The government informed RNZ that its funding was to be frozen and would need to deliver more operational efficiency to meet its budget restriction, citing the economic downturn as necessitating austerity. However, RNZ cited an independent report by KPMG/MCH (2007) that concluded that RNZ was already highly efficient in its budgeting and was actually chronically underfunded. Mediaworks’ Brent Impey commented 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 percent to level the playing field with the commercial sector (quoted in Drinnan 2009). Interestingly, these objections are aimed at a heretofore noncontentious public revenue stream that funds a dedicated public broadcaster not competing for substitutable audience or revenue. Indeed, Impey even argued that PSM ought to be *penalized* to help compensate the private sector for the downturn in commercial revenues. Thus, the private media sector is responding to shifts in the commercial value chain by claiming a natural right to priority access to any and all audiences and revenue streams: Public service must stand aside to accommodate the imperative of private capital accumulation.

Meanwhile, the TVNZ Charter has been scheduled for abolition in 2010, but the amendment bill does not return TVNZ to SOE status and retains some generic PSB requirements, including universal service and content range and quality (Thompson 2010a). Meanwhile, the government has indicated that it wishes to retain TVNZ 6 and/or 7 in some form but has thus far been unwilling to commit to funding them. If they move to a commercial funding base, the distinctive character of their schedules will be eroded. It appears that the government does not wish to publicly abandon PSM commitments altogether but remains unwilling to provide adequate funding. The abolition of the TVNZ Charter represents a serious dilution of PSM functions. However, in contrast to the EU scenarios where the evolution of PSM is quarantined by increasingly specific definitions of legitimate functions (Jakubowicz 2006), the NZ strategy involves circumscription of PSM through strategic ambiguity, leaving TVNZ accountable to nothing except the government’s transitory policy priorities.

The National government's predilection for a market-driven approach to broadcasting is nevertheless becoming clear in other ways. The government's decision to abandon a major planned review of regulations for digital broadcasting and content appears to reflect an active aversion to investigating policy issues that might demand regulatory intervention in the market (Thompson 2009). Meanwhile, TVNZ was encouraged to abandon its long-standing refusal to allow TVNZ 6 and 7 to be carried on Sky's platform. Moreover, TVNZ's recent decision to launch its new archived content channel "Heartland" exclusively on Sky's platform effectively means that half the households in New Zealand will be disenfranchised from their own televisual heritage unless they subscribe to a foreign pay-TV provider. As John Fellett, CEO of Sky TV, succinctly commented, "This vault of content which includes some of New Zealand's most beloved shows is the biggest untapped resource since the Maui oil fields" (Sky TV 2010). TVNZ will profit from the venture, but this move clearly involves the transformation of a public good into a private one.

Conclusions

The United Kingdom and New Zealand cases are distinctive, but they also exhibit some interesting similarities in recent media policy trajectories. These cannot be assumed to be a direct consequence of macro-political-economic conditions, however. The outcomes of these conditions are manifested through the specific institutional responses they motivate within the respective media ecologies of both countries. Table 10.1 identifies some of the divergences and convergences that emerge from the analysis undertaken in this chapter.

The struggles over the BBC license fee and TVNZ's Charter and digital channel funding are both indicative of moves by the private media sector to gain access to public revenue streams and/or to prevent PSM providers from enjoying privileged access to them. In both national cases, private sector lobbyists have deployed neoliberal market discourses framing PSM provisions as an infringement on the commercial sector's presumed entitlement to prioritized access to any and all audiences and revenues, and sought to curb PSM providers' role in the evolving media landscape. Neoliberal discourses conflate the development of digital media platforms and services with public service functions but may legitimate State support for PSM if this is "platform-neutral" and not restricted to public sector institutions. Political actors within government and State sector institutions, in turn, are also increasingly driven by economic priorities and thus often appear to regard the commodification of new media spaces as beneficial to economic growth. The result is both the BBC and TVNZ find themselves ever more tightly squeezed by the private commercial media operators *and* government. Despite research in both the United Kingdom and New Zealand showing that audiences value PSM provisions as citizens even

Table 10.1 Common and distinctive elements of the UK and NZ media ecologies

	UK case	NZ case
Political economic/ policy conditions	Both underwent extended periods of neoliberal macroeconomic reforms followed by extended periods of third-way policy revisions, with a recent return to governments with neoliberal priorities	
Shape of media ecology	Mixed model but with public service obligations as default, including private free-to-air broadcasters	Highly commercialized model, including State-owned enterprises with public service obligations as the exception
	Both media ecologies have suffered from the economic downturn coupled with increasing competition for ratings and revenue from other platforms. Also, the expansion of a dominant pay-TV provider has intensified market pressure on free-to-air operators (excepting the BBC and RNZ) and increased opportunity costs of PSM provision	
Regulatory arrangements	Integrated media regulator (Ofcom) with responsibility for both public service and commercial/economic functions. Increasing pressure to accommodate demands of private media operators to dilute PSM obligations	<i>Laissez faire</i> model with Commerce Commission to oversee free-market competition and Broadcasting Standards Authority (BSA) to regulate content standards. TVNZ Charter to be abolished. Planned review of media regulatory provisions canceled, although free-to-air operators concerned about market share of pay-TV provider
New media issues	BBC's extension into online services is challenged by commercial operators and is subjected to European Commission (EC) regulations on public service provisions	TVNZ's commercial extension into digital platforms and online services regarded as unproblematic by commercial sector
	Expansion of digital media services are conflated with public service functions in neoliberal policy discourses and used to legitimate "platform-neutral" funding provisions that include private sector	

(Continued)

Table 10.1 Continued

	UK case	NZ case
Public service media funding issues	BBC's license fee subject to challenges from both commercial operators and other government/regulator priorities, coupled with EC demands for specified proportional PSM funding	Contestable funding mechanisms for local content and Maori TV are legitimated. Noncontestable PSM funding mechanisms excluding private sector are opposed by commercial operators
	BBC's license fee retained but hypothecated status compromised by obligations to support digital/broadband policy, S4C, and private media sector	TVNZ's direct funding rescinded and made contestable under new New Zealand On Air (NZOA) fund. TVNZ 6 & 7's future remains uncertain after Charter
	Both cases are indicative of a normative shift toward legitimating State funding for public service media on the basis of broader economic policy functions and the eligibility of private sector media as beneficiaries of such measures	

when their consumer preferences are different (Human Capital/BBC 2004; Synovate/MCH 2007), civic voices are often subordinated to the discourses promoted by vested political-economic interests, including the commercial media operators.

The recognition of shifts in the commercial value chain and fragmentation of audience share and revenues do not mean that private sector media cannot be reasonably expected to sustain public service obligations or that public revenue streams should be cannibalized in order to subsidize commercial operators. The proliferation of channels and platforms and the tendency toward audience fragmentation do not directly translate into lost revenue due to the increased premium that advertisers place on any medium capable of delivering a mass audience (Christophers 2010). Nevertheless, the inevitable intensification of competition across providers and platforms does squeeze operational margins, with contradictory consequences for policy. On the one hand, these pressures are cited by the private media sector to legitimate appeals for increased access to public revenue streams (through either contestability or diversions of funds from top-slicing previously hypothecated license fees). As Syvertsen succinctly observes, "the idea is that unless broadcasting companies are reimbursed in some way, they cannot be expected to provide the level of diversity and

quality that society expects of them” (Syvertsen 2003: 164). On the other hand, however, it is also becoming apparent that there is likely to be declining efficiency in giving taxpayer dollars to private commercial operators to pursue public service aims, particularly since for-profit media must always deliver a surplus to shareholders that cannot be allocated to programming. This requires relatively higher levels of subsidy to render public service production/scheduling viable and offset their propensity toward market failure.

The recent return to power of center-right governments in both the United Kingdom and New Zealand suggests that the default policy trajectory is likely to continue toward a dismantling of PSM provisions and a diversion of public revenue streams toward subsidizing private media operators. However, the interplay of different institutions as they negotiate regulatory and fiscal conditions can shape political-economic outcomes. The scope of policy options available to governments is subject to contestation, and the deployment of policy frames and discourses to (de)legitimate PSM provisions suggests the current trajectory can be challenged. However, that does not mean such efforts will be effective. Private media corporations lobbying for further curbs on public service provisions have so far engaged effectively with policy-makers and helped form the political channels of action that give them access to public sector revenues and audiences, while PSM are left running on empty.

Notes

- 1 Ofcom gave consideration to the creation of a contestable fund to support independent PSB content production (rather like the NZ On Air contestable fund), but as Graham (2005) notes, it recognized a potential problem in ensuring adequate distribution in a multimedia environment. It then promoted the notion of a public service publisher (PSP) that would provide a vertically integrated commissioner/distributor (which is similar in principle to the original Channel 4 arrangement prior to it becoming directly funded through its own commercial advertising).
- 2 In effect, the WOCC is a kind of contestable funding system within the BBC itself that allows proposals from both in-house and independent producers to “ensure that the best ideas are commissioned for our audiences irrespective of who makes the programs” and “ensure a level playing field between all suppliers” (BBC Commissioning, no date; see also Christophers 2010).
- 3 The BBC World Service has heretofore been funded through the Foreign Office. More recently, even the interim “grant-in-aid” provided by the Foreign Office up to 2014 has itself been cut as a CSR measure, necessitating the closure of several of the BBC’s foreign-language services (see Thompson 2011).
- 4 Hewlett (2010) points out that the BBC’s willingness to sign up for additional financial responsibilities (such as contributing to digital switchover) as part of the previous round of license fee discussions set a dangerous precedent, which the coalition government has fully exploited. In effect, this opened the door to further compromises in regard to the license fee’s hypothecated status.

- 5 RNZ National deals primarily with news, current affairs, and other factual content, while RNZ Concert is the classical music station. The audience demographic is, therefore, unlikely to be interested in the typical commercial radio focus on popular music and low-brow, talk-back shows, meaning that they do not represent a zero-sum loss to the commercial market.
- 6 Prime TV was originally part of this group but withdrew in 2006 when it was acquired by Sky—to which Freeview is both a technical and commercial rival.
- 7 TVNZ 6 carries children's content during daytime, family content in the late afternoon/early evening, and arts, drama, and documentary later in the evening. TVNZ 7 carries news, current affairs, and sports.