

## 8. The scope of the BBC's publicly-funded services

### Our policy

The current range of BBC services has broad public acceptance and should be maintained. However, each service needs to be defined by a licence that gives it a clear, distinctive form and remit.

The BBC has said it has no plans to launch new linear TV or radio channels. In future, however the BBC may need to develop its digital services further and it may want to enter some new markets. There should be scope for it to do so, but any proposals must pass tests of their public value and market impact.

### Overview

- 8.1 In our public consultation exercise, we found that the existing range of different BBC services, across radio, TV and the internet, has broad public support. There were few calls for any particular channel to be shut down or sold off and we have no plans to require this. The full range of existing services is summarised in box 8.1.
- 8.2 Although the existing set of BBC services may look to be roughly the right ones in 2005, the pace of change in media markets is such that further change may well be justified at some point in the next Charter period. There may be public value in the BBC taking advantage of completely new platforms or means of delivering programmes. It may also want to consider withdrawing from some activities if it becomes clear they are no longer adding any value to what the commercial market would provide.
- 8.3 There should be some flexibility for the BBC to add and remove services. The new system we propose for governance and regulation could give the new BBC Trust more of a role in this process – testing the Executive's proposals through a rigorous and open public value test, including testing of viewer and listener opinion. Part of that test should be a market impact assessment, conducted by Ofcom. Only where the public value of a proposed service clearly outweighs any adverse market impact should the Trust recommend that the Government grants it final approval.
- 8.4 The BBC said in *Building Public Value* that it had no plans to expand its channels or networks.<sup>37</sup> Yet it also outlined proposals for the development of new 'ultra-local' television news services and for a 'Creative archive' that would make existing BBC content more widely available on the internet. Both these proposals are likely to be popular with the public, but they also raise potential concerns about market impact – either for local commercial TV services or for those who may want to buy or sell the rights to internet content. We would like to see further detail on how these proposals would fit into a system of service licences. We agree with the Select Committee that the BBC should balance the interests of rights holders with those of the wider public in developing new proposals for the distribution of archived material. Any proposal should be subjected to a full public value test, including a market impact assessment, to assess whether it is the best use of the BBC's archive before any decision is taken to approve it.

<sup>37</sup> BBC, *Building Public Value*, p. 16

8.5 The sections below consider some of the current questions about the format of existing services. We consider the role and distinctiveness of specific services – particularly in radio – in more detail. We also respond to some of the recommendations made in the independent reviews of new BBC digital services – television, radio and online.<sup>38</sup>

### Box 8.1 The BBC's publicly-funded services

Television	Radio	Other
BBC 1	Radio 1	BBC Online
BBC 2	Radio 2	World Service
BBC 3	Radio 3	BBC Scotland
BBC 4	Radio 4	BBC Northern Ireland
Cbeebies	Radio Five Live	BBC Wales
CBBC	Five Live Extra	BBC English Regions
BBC News 24	1Xtra	
BBC Parliament	6 Music	
	BBC 7	
	Asian Network	
	6 Nations services	
	40 local and regional services	

Note: BBC Scotland, BBC Northern Ireland, BBC Wales and BBC English Regions provide a range of services to local audiences across TV, radio and new media

### Access for people with sensory impairments

8.6 The BBC should continue to promote the development of practical ways of increasing the enjoyment of all its publicly-funded services by people with sensory impairments. We expect it to maintain its role in leading the rest of the industry, by setting its own targets for subtitling, audio description and signing as well as continuing to work closely with the relevant organisations to best understand how its services can continue to improve. It should use its research and development resources to help the whole industry deliver better services to disabled people. The Culture, Media and Sport Select Committee recommended that the BBC be given a specific duty in this area. We will consider this recommendation further in the next phase of Charter Review.

### Analogue radio<sup>39</sup>

#### Context

8.7 In the BBC's own audience research, BBC radio services overall score an average approval rating of 8 out of 10, compared with an overall average for all BBC services of 6.7.<sup>40</sup> This would seem to be consistent with the MORI research conducted for DCMS which showed

<sup>38</sup> Independent review of the BBC's digital television services; Independent review of the BBC's digital radio services; Independent review of BBC Online – all at [www.culture.gov.uk/broadcasting](http://www.culture.gov.uk/broadcasting)

<sup>39</sup> Unless otherwise stated, all data and statistics provided in Sections 8.7 to 8.30 are from the BBC network radio papers submitted to Charter Review, which are available at [www.bbccharterreview.org.uk](http://www.bbccharterreview.org.uk)

<sup>40</sup> BBC, *Public Service Radio in a digital world*, p. 28

that hardly any people thought the quality of BBC radio had worsened over time (8%, compared to 30% for TV).<sup>41</sup>

- 8.8 Commercial radio companies have four main concerns about the scope of the BBC's current analogue radio services. They argue that:
- some BBC services overlap to too great an extent with commercial radio services;
  - the mix between popular programming and public service broadcasting is sometimes too weighted towards populist/commercial programming;
  - BBC Radio services can change their character without clear regulatory intervention whereas all commercial radio stations have formats with which they must comply and which cannot be varied without Ofcom's agreement;
  - The BBC is too dominant in the radio market and can too easily overpower commercial rivals. It spent £587 million on radio in 2003, exceeding the net revenue of all commercial stations<sup>42</sup>. It has 5 of the available 8 national analogue services and 4 of the 5 available national FM frequencies. It is also able to cross-promote its radio services through its TV services.

#### Ofcom's radio review

- 8.9 Ofcom's recently published consultation document, *Radio – preparing for the future*, outlines the economic arguments for intervening in the radio market. In summary, it suggests that, because of spectrum scarcity and the needs of advertisers, an unregulated radio market is unlikely to provide all the programmes that consumers want. Regulation (through formats) and wider public intervention (for example, through the BBC) can provide a wider range and balance of programmes. There may also be good arguments for intervening on citizen grounds; for example, to ensure adequate provision of news or educational programmes, and to make people better informed and thus better able to participate in a democratic society. Commercial radio will provide a lot of these benefits.<sup>43</sup> But it is not clear whether it can do so to the extent desired. One aim of Ofcom's radio consultation is to examine whether it would be useful to develop a set of public purposes specifically for radio, and how they may best be delivered. The second phase of Ofcom's report will be published in Spring/Summer 2005 and we will want to consider its conclusions before we finalise our proposals for radio.

#### Distinctiveness

- 8.10 The process of Charter Review has focused so far on whether BBC services are sufficiently distinct from those of commercial competitors.
- 8.11 It was widely agreed at the Independent Panel's seminar on radio that Radio 3 and Radio 4 would not be financially viable as commercial services if the BBC did not provide them. Classic FM has some superficial similarities to Radio 3 but, while both play predominantly classical music, their approaches are very different, with Radio 3 playing much more live music and generally playing whole compositions rather than popular extracts. Classic FM has proved to

<sup>41</sup> MORI, Quantative Research to inform preparation of the BBC Charter Review 2004, available at [www.bbccharterreview.org.uk](http://www.bbccharterreview.org.uk)

<sup>42</sup> Ofcom, *Communications Market Review 2004*, p. 39

<sup>43</sup> For example, commercial stations broadcast on average 157 news bulletins a week, and 66% of these contain local news items (*Commercial Radio: in the public service*, CRCA, September 2004)

be very successful with listeners and now has an audience of 6.2 million (13% reach).<sup>44</sup> Despite this, Radio 3's audience has remained broadly unchanged at over 2 million, suggesting that the two stations complement one another rather than compete for the same audience. In addition, Radio 3 commissions more new music – in fact it is the largest commissioner of new music in the world; with Radio 4 being one of the largest commissioners of new writing.

- 8.12 Similarly, there are few who argue that BBC local radio is not distinctive – it has a much higher proportion of speech (at least 60%) than local commercial radio and its programming appeals to an older audience. Unlike national networks, however, the BBC can launch new local services without first securing the agreement of the DCMS. Some concerns have been raised that there should be some mechanism to ensure that new stations are not launched without first taking into account the possible impact on existing commercial stations. We return to this issue below.
- 8.13 Commercial competitors' concerns about the market impact of BBC analogue radio therefore relate mainly to three stations: Five Live, Radio 1 and Radio 2. These are discussed in more detail below.

#### Five Live

- 8.14 Radio Five Live provides two complementary services – news and sport. It has 6.48 million listeners (13.4% reach) and an audience share of 5.1%. While it covers more than 30 sports, 75% of its output is news and current affairs, and more people listen to news and current affairs than sport. 70% of its sports listeners also listen to its news output.
- 8.15 Five Live competes directly with TalkSport in the market for sports rights, and it has been alleged that the BBC bids too aggressively for these rights. In his review of Five Live's digital sister station, Five Live Extra, Tim Gardam recommended that the Government commission a review of the BBC's approach to sports rights negotiations.<sup>45</sup> We will consider this recommendation further once Ofcom has dealt with the official complaint that TalkSport have made.

#### Radio 1

- 8.16 Radio 1 reaches just under 10 million listeners aged 15 and over every week (a reach of over 20%), and its share of all radio listening is 7.6%. Its reach among the 15-24 age group is nearly 50%. In the BBC's view, Radio 1 plays an important role in 'uniquely connecting BBC Radio and the BBC to young people. Without it, BBC Radio would appear to have little appeal or reach to young audiences.'<sup>46</sup>
- 8.17 71% of Radio 1's output is music, which is split broadly 55/45 between mainstream and specialist music. The aim is that 40% of the mainstream music is UK in origin and 81% of its specialist and 40% of its daytime music is "new" (no more than 1 month old).
- 8.18 Radio 1 has been accused of marginalising its specialist music and playing more mainstream music during the day – 'ratings by day, reputation by night'. It is true that specialist music

<sup>44</sup> Rajar, Quarter 4, December 2005

<sup>45</sup> Tim Gardam, Independent review of the BBC's digital radio services

<sup>46</sup> BBC, *Public service radio in a digital world*, p. 29

shows are predominantly broadcast in the evenings. However, the analysis conducted by the BBC at our request suggests that Radio 1's musical output is quite distinctive from comparable commercial stations. On average, other monitored stations played only 15% of the tracks featured on Radio 1. Even in daytime, the average was just a little over a fifth (21%). Of the new songs played by Radio 1, half were not played on any of the other monitored stations. Radio 1 also played more live music and more new UK music than any of the monitored stations. In addition, output from specialist music shows feeds into the more mainstream music shows over time; 75% of Radio 1's playlist originates from specialist programmes.

- 8.19 Radio 1 runs news services throughout the day. Newsbeat, a 15 minute news and current affairs programme specifically aimed at younger people, runs twice daily. After peak time programmes, Radio 1's largest audience (in terms of reach) is for news. The commercial sector also provides news but it is difficult to argue that it does so in a way so extensively or specifically geared to a youth audience. Nor does the commercial sector run any equivalent to Radio 1's online music workshop for young people interested in working in the industry.

## Radio 2

- 8.20 Radio 2 has 12.9 million listeners each week (representing a reach 26.7%) and a share of 15.3%. It has been criticized for allegedly abandoning its 'traditional' listeners and using its considerable resources to target a younger audience already well served by the commercial sector. It is further argued that the commercial radio formats would have prevented the commercial radio sector from having the same freedom to change its output, and that it is difficult for it to compete due to the lack of a national FM network and the BBC's opportunities for cross promotion. The result, it is argued, is that Radio 2 has been largely responsible for a 3% drop in commercial radio's share of the market.<sup>47</sup>
- 8.21 The BBC has argued that tastes will vary over time, and that Radio 2 has to adapt in order to continue to serve its core audience. Although popularity amongst younger listeners is increasing, the average age of its listeners is still 50, compared with 53 five years ago.
- 8.22 The analysis conducted by the BBC suggests that the similarities between Radio 2's output and similar commercial stations is not as great as is sometimes suggested. For example, almost 1 in 6 tracks comes from a new album; 52% of tracks played have not entered the Top 20 singles chart and 49% have not been drawn from a Top 20 album. It has a much greater proportion of speech (42%) than the stations it was compared to, and 66% of the tracks played were not played by any of the other monitored stations. Even in daytime, the overlap between Radio 2 and the other monitored stations was on average only around 10%. It played more live music than the other stations and its programming covers 20 different genres (though the more specialist programmes are scheduled outside peak time).

## Conclusion

- 8.23 When examined on a service-by-service basis, the BBC's own analysis suggests that its existing analogue radio services are distinctive when compared to commercial competitors.

<sup>47</sup> *BBC Charter Review: A Paper by the Commercial Radio Companies Association*, p. 8

Taken together, they also achieve significant reach across the UK population, and we agree with the public that the existing range of services is broadly 'right' in analogue radio. However, it is not sufficient for the BBC to provide evidence, at the point of Charter Review, that each service is distinctive. In future, the BBC Trust will need to conduct regular assessments of whether services are fulfilling the full range of public purposes, for example by stimulating creativity in music, or providing training for young and talented people.

- 8.24 There are three important questions that relate to the governance and regulation of radio services:
- While Radio 1 and Radio 2 may be distinctive when the whole of their output is surveyed, a question may remain over the nature of some peak-time output. In our formulation of the BBC's public purposes, we have said that every programme should strive to make a contribution to these purposes or should at least display some characteristics of excellence or distinctiveness. The BBC Trust will have to consider how applicable this principle is to peak-time radio programming, and we would welcome submissions on the subject as Charter Review continues.
  - The BBC should not be able to make significant changes to the character of any of its radio services without regulatory supervision. Under the next Charter, all BBC radio services would be held to the detail of their service licences, and any significant change would need to be subjected to tests of public value and market impact overseen by the BBC Trust, as described above in Chapter 5.
  - Finally, the BBC should not launch any new radio service, national or local, without again subjecting proposals to public value and market impact tests overseen by the BBC Trust.

## Digital radio

### Context

- 8.25 Sales of digital radios are growing rapidly, with 1.2 million sets sold by 2004.<sup>48</sup> The BBC and the commercial radio industry have together played a key role in promoting the medium.
- 8.26 In 2001, the BBC gained approval for five new digital radio stations: 1Xtra; BBC Asian Network; BBC7; 6 Music; and Five Live Sports Extra, which were all launched in 2002. The rationale behind 1Xtra and the Asian Network was to provide for underserved audiences (1Xtra for the young Black community; and the Asian Network broadcasting 3-5 hours of language programming alongside content in English). 6 Music and BBC 7 make use of BBC archive material and Five Live Sports Extra aims to get greater value from the sports rights packages negotiated by the BBC, especially in giving coverage to minority sports.

### Gardam Review

- 8.27 Following the Secretary of State's commitment to conduct an independent review of these services two years after their launch, Tim Gardam, Principal of St Anne's College, Oxford, assessed the services against the conditions of their approvals between April and September 2004.

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<sup>48</sup> Digital Radio Development Bureau (DRDB), January 2005

- 8.28 His recommendations included revising all the service remits (except that of Five Live Sports Extra) to reflect better the character and nature of the stations and improving the detail and clarity of their different targets and objectives. He also suggested that there should be a closer relationship between Ofcom and the BBC so as to make commercial and BBC station formats more directly comparable and to devise an agreed formula for assessing market impact so as to lessen the likelihood of the BBC having, or being accused of having, a detrimental effect on individual services.
- 8.29 Gardam recognised that the BBC is a significantly larger and better-resourced operator in the radio market than it is in the TV market. He concluded that this makes the need for a clear, workable market impact measurement tool agreed between the regulator and the BBC all the more important, and the BBC has accepted this.
- 8.30 The BBC's initial response to the Report is encouraging, and we will continue to seek clarification on the details as Charter Review progresses. We have asked the BBC to provide a further update by the end of March. In particular, we are keen to hear how the BBC intends to address Tim Gardam's recommendation that the BBC's radio archive should be available to commercial purchasers.

## Television

### Context

- 8.31 There is little debate over the continued existence of either BBC 1 or BBC 2. Our audience research showed that BBC 1 and BBC 2 are the two services that most people think of when they think of the BBC<sup>49</sup>, and they retain broad support as channels that provide 'something for everyone' across a wide range of different types of programme for different audiences. However, some have argued that these services need to increase their focus on public purposes. The BBC's recent programme strategy makes welcome moves in that direction, and with a better defined set of public service purposes and characteristics and a more rigorous system of governance and regulation that focus should be maintained in the longer term.
- 8.32 The Secretary of State gave her approval for the launch of the digital television channels BBC4, CBBC and CBeebies in 2001, with approval for a revised proposal on BBC3 granted the following year. These were not the first BBC digital TV ventures – they subsumed two prior channels BBC Choice and BBC Knowledge launched in 1998 and 1999 respectively, and the rolling news channel BBC News 24 went live in 1997.
- 8.33 These channels were launched into a highly competitive market, and had clearly-defined remits to distinguish them from commercial channels. These new digital services were designed to 'help drive digital take-up, create public value and extend the reach of public service broadcasting'.

<sup>49</sup> DCMS, Review of the BBC's Royal Charter, *What you said about the BBC*, p. 26

## Barwise Report

- 8.34 As with the digital radio services, the Secretary of State committed to an independent review of these services. Professor Patrick Barwise, Professor of Management and Marketing at London Business School, assessed the services against the conditions of their approvals between April and September 2004.
- 8.35 Professor Barwise argued that the top priority for BBC3 and BBC4 should be to increase their audience impact, value for money, and appeal to potential digital adopters by evolving to become more mainstream, mixed-genre channels. In particular, he argued that BBC3 should be less narrowly focused on its target audience of 25-34 year olds. He concluded that CBBC and CBeebies were successful, distinctive and valuable children's channels.

## BBC Response to Barwise Report

- 8.36 The BBC's initial response supports Barwise's idea that BBC3 and BBC4 should increase their reach and share but argues that this should not be at the expense of their distinctiveness. The BBC has reservations about making the channels more mainstream, and notes that, while one of the key aims of the whole package of BBC digital channels is to drive digital take-up, this should not be the overriding aim of individual channels.
- 8.37 We support the BBC's attempt to broaden the appeal of both BBC3 and BBC4, while agreeing that they should remain distinctive within the terms of their original approvals. We will look to the BBC Trust to define the remit for these services more precisely in service licences, and to monitor their performance closely.

## New media

### History of bbc.co.uk

- 8.38 Since the mid-1990s, the BBC's new media venture has expanded exponentially into what is now a third arm of the Corporation's public service broadcasting. When BBC Online (bbc.co.uk) was given approval as a permanent service in 1998, its remit was broadly drawn, reflecting the uncertainty about how the fledgling medium would develop.
- 8.39 Its public service objectives were 'to act as an essential resource offering wide-ranging, unique content; to use the internet to forge a new relationship with licence fee payers and strengthen accountability; and to provide a home for licence fee payers on the internet and act as a trusted guide to the new media environment.' The site now has over 2 million pages of content, and at March 2003 41% of licence fee payers were viewing BBC online services.<sup>50</sup> The site provides a wide range of services, from national and international news, to learning tools for teachers and schoolchildren and localised discussion forums. The service also aims to bring new users online, providing them with simple and safe navigation tools and content.

<sup>50</sup> BBC 'Public Service in an Online World' (submission to Graf review), p. 16

## Graf Report

- 8.40 Philip Graf, former Chief Executive of Trinity Mirror, was commissioned in August 2003 to conduct an independent review of [bbc.co.uk](http://bbc.co.uk). He was charged with assessing whether the service was meeting the terms of its approval, whether it was having an adverse impact on the market, and to consider the role of [bbc.co.uk](http://bbc.co.uk) in the wider context of the BBC's portfolio of services.
- 8.41 As the internet has developed into a sophisticated tool for communicating, retrieving information, creating personalised content and listening to and watching broadcasts, the scale, scope and ambition of [bbc.co.uk](http://bbc.co.uk) grew accordingly. The number of sites under the [bbc.co.uk](http://bbc.co.uk) umbrella has doubled, and the content expenditure jumped from just £11m in 1998/99 to £58.6m in 2003/04. Graf noted that this 'may seem, at least in part, to be an inevitable consequence of a strategy that has taken a broad interpretation of the terms of the original approval.'<sup>51</sup>

## The BBC's response to the Graf Report

- 8.42 The BBC has made alterations to the service in the light of Graf's subsequent conclusions and recommendations. These included a revised remit more closely aligned to public purposes and/or programme-related content; changed commissioning processes to increase the amount of content commissioned outside the BBC; tighter, more transparent governance; and a deliberate precautionary approach to the impact of BBC investment on the wider UK market. They have made good progress in developing a more detailed remit, which is clearly linked to the aims outlined in *Building Public Value*. The new remit that they propose has four elements: serving the Corporation's public purposes as articulated in *Building Public Value*; creating a deeper relationship with the licence fee payer and greater accountability; continuing to act as a trusted guide for users; balancing public value against market impact.
- 8.43 While committing to focus resources on content that has educational and democratic value, the service must continue to cater for the tastes of all licence fee payers. It should play a key role as a benchmark of innovation and quality, developing original and engaging content to attract new users and give those with more experience the opportunity to engage creatively with the site. The BBC will also have to continue to monitor the balance of content and services on the site to ensure that they remain in keeping with the principles and purposes of the Corporation eventually enshrined in the new Charter next year. We expect the service licence developed for [bbc.co.uk](http://bbc.co.uk) to provide a high level of clarity, for all interested parties, about the boundaries of the site.

## Future Development

- 8.44 The BBC's new media arm stretches further, however, than just the pages of [bbc.co.uk](http://bbc.co.uk). In recent years the BBC has been exploring ways of opening up its programme archive to licence fee payers, primarily via the internet. In 2002 the BBC launched Radio Player, which allows anyone with access to [bbc.co.uk](http://bbc.co.uk) to stream content (either live or from the previous week's radio schedule) through their computers. The BBC is also working on an Interactive Media Player (IMP), which would give people access to visual as well as audio content, and is

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<sup>51</sup> Graf Report, p. 33

experimenting with making content available to download, not just to stream. As convergence progresses, the distinction between the broadcaster, the content originator and the platform provider blurs.

- 8.45 We agree that over time it may make sense for the BBC – as it has suggested – to ensure that its content is accessible from an increasing array of devices. However, we would want to make sure any such moves were subject to full tests of their potential market impact, to weigh their potential value to users against any risk that the BBC might prevent other companies from exploiting the new opportunities that technology offers, and against the opportunity cost of providing free access to archive material. In fledgling technologies, the BBC should work to enhance and open up new markets, not close them down. There should be further consideration of how the BBC can ensure it makes the best possible use of its archive material.

### Market impact

- 8.46 The fact that the BBC exists is a public policy choice with a direct effect on the broadcasting market. But while we want a strong BBC we also need to sustain a flourishing commercial sector. The BBC needs to be vigilant about its potential to have a negative effect on commercial competitors. To achieve this, the BBC will be subject to tough new internal and external processes:
- The BBC Trust will in future hold the BBC to its distinctive public purposes.
  - The Trust will also hold individual BBC services to specific service licences that prevent any significant change in their character.
  - Proposed new services will be tested for market impact by Ofcom. The BBC Trust will only approve proposals where it judges public value exceeds market impact.
- 8.47 We will also commission further research to assess the value to audiences of the BBC advertising its own services against the potential market impact of such cross-promotion. There is clear value in the BBC informing its audiences about the range of programmes and services available. On the other hand, the BBC's competitors have expressed some concerns in this area, particularly about the BBC advertising its radio stations on national television. Concern is focused around the adverse effect such activity may have on commercial services that have no such access to high profile cross-promotion. In addition, in our consultation and research work there have been complaints from people who feel there is too much BBC cross-promotion.