Independent Review of the BBC's Digital Radio Services

Tim Gardam

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Contents

* *Appendices available electronically on the DCMS website: www.culture.gov.uk*
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1. Executive Summary

Digital radio will transform radio into a converged communications medium, combining audio, text and pictures. It will bring radio to mobile telephony platforms and offers the UK commercial radio industry an opportunity to transform its business model. It has the potential to offer the listener a far richer experience and range of information.

However, digital radio has been slow to take off and its success is not yet assured. It has only reached its present position thanks to commendable co-operation between the BBC and the commercial radio sector.

The BBC has been instrumental in driving digital take-up through its unparalleled capacity for cross promotion of digital radio across all of its media.

The commercial sector has taken great risks in committing a high level of investment to digital radio. In reaching any judgement on the performance of the BBC's services, it is important to balance the intrinsic merits of the BBC services themselves with the competitive impact they have on the performance of commercial services serving the same audience.

The great benefit of the five BBC digital services – 1Xtra, BBC Asian Network, 6 Music, BBC 7 and Five Live Sports Extra – has been to offer networks on digital radio that could be funded to realise their editorial ambition. They have delivered a programme quality that is impossible for commercial radio equivalent stations at such an early stage in this market.

However, this differential in funding makes it all the more important that the BBC stations define themselves by offering something editorially different to what the commercial market can offer. Otherwise, they will justifiably be accused of distorting the market and discouraging competition. The distinctiveness of the BBC services must be their justification.

The BBC digital services have, in broad terms, acted in accordance with their original proposals and met the terms of the Conditions and Approvals laid down by the Secretary of State.

However, the DCMS Conditions and Approvals are in themselves not sufficient to ensure the BBC's distinctiveness from the services offered by the commercial radio market. The distinctiveness of the current services is down to the fact that the BBC has gone above and beyond the general conditions laid down by the Secretary of State.

In the early stages of the digital radio market, the generality of such Conditions has not been of great significance. However, as the market develops, it will be necessary for the BBC's services to be more carefully described if their distinctiveness is to be ensured.

The remit for each of the BBC services at present exists in three separate documents: the BBC's proposals, the DCMS Conditions and Approvals, and the subsequent BBC Statements of Programme Policy. These need to be brought together into one coherent statement.

1Xtra has established a credibility and reputation with a young Black audience where the BBC had little before. Its commitment to news and documentary gives it a distinctiveness from the commercial sector. It is a very confident editorial proposition. However, in fulfilling its remit to provide a service for "Black music lovers", it has concentrated on urban music, the most mainstream part of the Black music market. African music and Gospel, for instance, are not prominent on the service. It is therefore not providing a service "bringing together the diversity of "Black" music and culture across the UK" as specified in the Secretary of State's Conditions. It does not do much to serve older Afro-Caribbean or African audiences.

The BBC Asian Network, unlike 1Xtra, has defined its remit not by its content but by its audience. It has brought considerable added value to UK Asian radio via the quality and content of its journalism. It has launched an innovative soap drama. However, it is relatively unambitious in terms of its programme innovation and formats. Its language services have been criticised for discriminating in favour of North Indian languages. It needs to redefine its remit in editorial terms and complete its transition from its roots in local radio to become a definitive national network.

6 Music demonstrates the BBC's creative enthusiasm at its most impressive. It has launched a service into the most commercially competitive part of the music radio market that is admired for its distinctiveness, its imagination and its knowledge. However, its output does not reflect the original Conditions set out by the Secretary of State. It has a more contemporary focus than the predominantly archive service originally envisaged. 6 Music should not change its focus but its remit should be rewritten to reflect its identity.

Five Live Sports Extra is a valuable addition to the BBC's services and, by broadcasting more hours of sports coverage from the sports for which the BBC owns rights, offers the licence payer extra value for money. However, it points to a wider question about the price that the BBC pays for sports rights in relation to the rest of the market.

BBC 7 has been the most significant BBC service in driving digital switchover. It has re-invented children's radio as a multi media proposition. It has established an original voice. In repeating much loved comedy programmes, it offers additional value for money to the licence payer. However, it has had the most significant market impact of any service. It has been an important factor in the failure of its commercial counterpart, Oneword, which was a potentially high quality proposition, and which in turn would have brought significant added value to the commercial radio market. Though Oneword may not have succeeded in any event, the BBC's actions in launching BBC 7 point to serious lessons for both the DCMS and the BBC in the Corporation's future attitude to its commercial counterparts.

The market impacts of the Asian Network, 1Xtra, 6 Music and Sports Extra do not appear to have had a negative effect on their commercial counterparts so far. These BBC services have increased listener choice and competition within their respective markets. They do not appear, in themselves, to have exerted a dominant influence, nor significantly to have reduced commercial investment. However, BBC 7 has had that effect.

The BBC Governors have consistently reviewed the digital radio services. However, they have not had the resources adequately to assess their distinctiveness. In the digital world, the Governors, if they are to fulfil conscientiously the Secretary of State's instruction that they should deliver "an analysis of the distinctiveness of the service", should change their approach. They have to consider the BBC not only in its own terms but in relation to the overall radio provision in the UK.

With the exception of Sports Extra, the remit for each of the services should be redrafted to reflect more accurately the points of distinctiveness from their commercial counterparts. The BBC service licences for each service, as proposed by the Governors, need to be more broadly comparable with the commercial radio analogue radio format agreements, with similarly measurable targets, in order for that distinctiveness to be clearly assessed. In this way, the BBC will be able to offer an element of predictability to the commercial stations whilst offering high quality programmes to the licence payers.

The lack of any formal relationship between the BBC Governors and Ofcom, the commercial radio regulator, is a problem. There should be a more formal means of co-ordination and discussion between the two bodies. They need to agree a framework for assessing the market impact of BBC services which both can use in reaching their conclusions on the BBC and the commercial radio market.

This will become even more important as digital radio develops and becomes a fully cross media proposition. The digital radio platform will provide data services to mobile telephony. The quality of BBC content in this world will be a great public benefit. It is important that the terms whereby the BBC can provide this without damaging the competitiveness of the market are swiftly determined.

2. Introduction

2.1 Terms of reference and timing

The terms of reference for this independent review of the BBC's digital radio services, as set out by Tessa Jowell on April 30th 2004, required me to do the following:

- consider whether, in providing its digital radio services (1Xtra, BBC6, BBC7, BBC Asian Network and Five Live Sports Extra), the BBC is acting in accordance with the facts and assurances on the basis of which approval to proceed with the services was given, and that the conditions imposed by the Secretary of State have been satisfied;
- produce an assessment of the market impact of the digital services under review;
- provide, within the context of the review of the BBC's Charter, any views on how these digital services might develop in future;
- conduct a public consultation;
- have regard, in reaching conclusions, to:

  (i) the BBC's own report on the performance of its new digital services and to any subsequent evidence provided by the Corporation;

  (ii) views submitted by other organisations and individuals in response to the BBC's report; and

  (iii) any additional evidence which the reviewer considers it appropriate to commission;
- submit a report on the BBC's digital radio services to the Secretary of State, in publishable form, by the end of August 2004, setting out the conclusions of the review, making any recommendations which the reviewer considers appropriate to ensure that the BBC's digital radio services are operated in accordance with the terms facts and assurances of the original approval, and that the conditions imposed by the Secretary of State have been satisfied, and outlining any views s/he has on how the digital radio services might develop in the future.

Timing

On September 13th 2001, Tessa Jowell, the Secretary of State for Culture, Media and Sport, approved the BBC's proposals for five new digital radio stations: 1Xtra, BBC 6 Music, BBC 7, BBC Asian Network and Five Live Sports Extra. The approvals were subject to a number of conditions, one of which was that the services would be reviewed periodically.

In October 2003, the Secretary of State wrote to the BBC Governors asking for their own report on the performance of the digital television and radio services against these conditions and approvals, in preparation for an independent review. The BBC submitted its reports on March 19th 2004.

I was appointed to lead this review, and on April 30th the Secretary of State announced the start of this process, along with Professor Patrick Barwise's parallel review of the BBC's digital television services.

Paddy and I were asked to submit our reports by the end of August so that our recommendations could contribute to the Secretary of State's review of the BBC's Royal Charter, ahead of its expiry in 2006.

Our work forms part of a rolling programme of independent reviews of the BBC's new services. The Lambert report on News 24 was published in December 2002, and the Graf report on BBC Online in July 2004.

The Review of the BBC's digital radio services had been the work of a team. I have been closely assisted by Stephen Taylor, who has guided me through the complex arguments on the BBC's market impact; and by Samir Shah, Chair of the Runnymede Trust and independent producer, who has brought his expertise to the review of the services' targeting of ethnic minority audiences. Kate McGavin of the DCMS has been invaluable in the Review's organisation. However, the final report and its conclusions are mine.

2.2 The structure of the Review

There are a number of different documents that lay out the purposes of the individual BBC digital radio services:

- Firstly, there are the **BBC's proposals** submitted to the Secretary of State when the BBC applied for the licences.

- Secondly, there are the **Secretary of State's Conditions**, stipulated when she granted permission for the licences. These consist of a number of **general conditions** that apply to both the digital television and radio services, plus **specific conditions** for each individual service. These limit the remit in some cases, and set measurable targets of programme output in others.[1]

- Thirdly, the BBC provided further detailed commitments for some of the services, which are developed further in its annual **Statements of Programme Policy.**

This report reviews the BBC digital radio services against all three sets of criteria.

2.3 The Review process

2.3.1 Evidence gathering & consultation

The BBC submitted extensive written evidence to the DCMS as the basis for this review. This comprised:

- A report from the Board of Governors on its supervision of the services.

- An overall review of the digital radio services taken as a whole.

- Individual accounts of each of the services.

These were extremely detailed and almost entirely devoid of self-criticism.

The BBC also submitted an independent report by Oliver and Ohlbaum consultants assessing the market impact of the BBC services on the rest of the market. This was commissioned by the BBC Management, with the approval of the Governors.

In accordance with the terms of reference for the Review, we conducted a six-week public consultation, which ran from April 30th to June 11th. We received 13 submissions from members of the public, all expressing enthusiastic support for the BBC's digital radio services, and 14 from industry and organisations representing many interested parties. These are published in full at Appendix 10.7, available at www.culture.gov.uk

- We spoke first to the industry organisations responsible for promoting the digital radio platform.

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1 It is important to note that, while all the BBC's radio services are constituted under the Charter and Agreement, these conditions mean that the BBC's digital radio services are subject to specific requirements regarding their content and nature, unlike the analogue services. These conditions are not dissimilar to the licences granted to commercial radio stations by the Radio Authority (now Ofcom), though they are not so detailed.

- We then spoke to the BBC about its own submissions.
- On receipt of the written submissions from outside the BBC, we interviewed the most significant witnesses from the commercial radio sector.

Finally, we returned to the BBC to put to the radio management the points made by its commercial rivals.

2.3.2 Additional research

- We also commissioned independent audience research on two of the BBC services: BBC 1Xtra and the BBC Asian Network. They were chosen because we felt we needed independent evidence to assess the success of the BBC's aim to reach under served ethnic minority audiences. We commissioned four peer review studies on these two networks to gain an independent editorial perspective on their reputation among their targeted communities.
- Ofcom also provided an assessment of the market impact of the BBC digital radio and television services. This was in part a commentary on the report submitted by the BBC from Oliver and Ohlbaum, whose conclusions Ofcom scrutinised. Ofcom's report is published in full as a separate document.
- We visited the different BBC services and had particularly valuable and open conversations with the production teams.

Caveats to the Review

This review has been conducted at a very early stage in the development of the digital radio market. When the Secretary of State granted the BBC the necessary permissions and approvals in September 2001, it was anticipated that the take-up of digital radio would be more rapid than has proved the case, especially in the sales of digital radio sets (referred to in the industry as DAB). It has only really been since the run-up to Christmas 2003, when sales of digital radio sets accelerated, that we have seen a growth in sales, in listeners, and in wider public interest in DAB. To this end, this Review can only reflect on what is inevitably quite provisional evidence. It will therefore be cautious about drawing definitive conclusions.

3. An Overview of Digital Radio

When I began to review the BBC digital radio services, I was under the mistaken impression that digital radio was a technology that essentially offered a larger number of radio stations and improved the quality of the sound. I discovered rapidly that this greatly underestimated its significance: digital technology will transform the nature of radio listening and will lead future generations of radio listeners to have a fundamentally different view of what a radio actually is and does.

Digital radio is becoming, in many ways, the most dynamic of broadcast platforms, moving rapidly towards "convergence" of content. As a result of digital radio, online, telextext, audio and even visual broadcast mediums are becoming intricately related. "On demand" listening is burgeoning, reconnecting radio as a medium to a generation of young adults that the industry feared might no longer value it. As we began our research for this Review, the first deal to use the commercial digital radio national multiplex to provide data services for mobile telephony was announced. In many respects, digital radio is further down the path towards convergence than digital television.

Yet, for all its potential, digital radio is still an embryonic market. Indeed it is an embryo that has needed, and continues to need, a high level of nurturing if it is to be assured of growth to maturity. Three years ago, when the Secretary of State authorised and set conditions for the BBC digital radio services, the emerging shape of the digital radio market was unknown, and its prospects for success quite dubious. No-one expected its take-up to be driven by significant numbers listening on digital television satellite platforms and on Freeview as well as on portable digital radio sets. Similarly, the popularity of online radio listening had not then been realised. Given the slow take-up of DAB sets and the absence until now of radio sets designed to attract a younger audience, the carriage of digital services by these new technologies has been crucial to digital radio's progress.

That all this has happened is in large part due to the unprecedented level of strategic co-operation between the BBC and the commercial radio industry. This is a technology where the United Kingdom is in advance of the rest of the world. For all the competitive tensions that exist between the BBC and the commercial radio sector, both sides agree that the BBC alone could not have made digital radio happen, although digital radio would not have happened without the BBC.

This Review has little doubt that digital radio is an exciting potential success, and that the BBC's new digital services are among the most interesting new stations that have emerged to drive it. Yet their very success points to difficult questions about the behaviour and definition of the BBC in relation to the rest of the radio market. Such questions relate directly to the wider questions that are being debated concerning the BBC's future role under its new Charter.

In the press, and in public policy discussions, the future of the BBC is invariably considered in relation to television. Largely because, in the eyes of politicians and commentators, Radio 4's distinctive and admired speech service dominates perceptions of BBC radio, radio is frequently placed to one side in the tough battles and contentious debate surrounding the funding and remit of BBC television and its impact on the market. Such a view fails to recognise the significance of radio, and the significance of the BBC within the industry. The BBC is a more dominant presence in radio than it is in television. It has been growing its share of the overall market. The higher level of spending on programme content by the BBC services compared to their commercial counterparts is many times greater than any such differential in television. Accordingly, in radio, there is an even more acute issue as to how the BBC should distinguish itself from the competition in order to underscore its public value and to prove it is not having a detrimental effect on the competitiveness of the commercial market.

In the course of this review, on many occasions, it has been necessary to reach a balanced judgement between the intrinsic merit of a BBC service on the one hand, and the competitive impact it has on the performance of a commercial station in the same market. The BBC's newly articulated commitment to "public value" and the commercial sector's concerns about "market impact" are two sides of the same coin. One cannot be considered without the other.

The advent of digital intensifies this issue. In radio, as in television, the implications of digital technology fundamentally challenge the BBC's traditional view of itself as an institution set apart from its commercial rivals. For most of its history, the BBC has been able to equate its difference of purpose with its separateness. The BBC's purposes, in the BBC's eyes, should be determined by its relationship with the licence payers, its customers, not by its relationship to the commercial broadcasters. This was very much the view of both the BBC Governors and the BBC Executives who talked to us in the course of this Review. In many ways, this remains a laudable ambition. However, in talking to the different parties involved in such decisions, it is clear that the advent of digital technology makes that splendid isolationism increasingly difficult to justify.

Digital not only brings with it convergence of broadcast platforms. The growing number of stations in a digital world, many of them segmenting existing audiences, also brings the BBC increasingly into collision with the rest of the market. In a digital landscape, the BBC can no longer be a place apart. The BBC's presence and creative energy brings unparalleled public benefits. All of its new digital radio services have a growing editorial self-confidence. The BBC has an unrivalled strength in content creation and, thanks to its public funding, can invest regardless of commercial return. At the same time, commercial radio companies are risking their futures by ploughing up to 20% of their profits into a technology that offers no immediate return of any sort, but which may hold the promise of great long term dividends. This inevitably makes each of the BBC's decisions a decisive factor in the development of the digital market overall.

Yet, in my many conversations with the BBC, it became clear that the BBC has had a tendency to overlook the impact of its actions on the commercial market where competitors have to make money to survive. The BBC, Governors and Management alike, has given little thought to the potential discouragement to commercial services from delivering similar services to the BBC because of the BBC's competitive deployment of resources that no business plan could ever justify. For all its achievements, and, as I shall explain, they are beyond dispute, the greatest problem for the BBC is its attitude to this issue. It cannot see itself as others see it. Some of its more rhetorical competitors like to characterise it as Sher Khan, the ravaging tiger of *The Jungle Book*, devouring all that is in its path. I do not quite share that view. Rather, to borrow another scene from the Walt Disney film of *The Jungle Book*, I see the BBC more like the well meaning herd of elephants, stomping through the jungle, trumpeting its achievements, each executive holding onto the tail of the one in front. They are undoubtedly a force for good, but unfortunately can be oblivious as to what might get crushed under their enormous feet.

Digital radio has outperformed many sceptics' expectations in the two years since the BBC launched its new services. Even so, its success is not yet assured. The BBC services, and their promotion across BBC television, radio and online, have given the overall digital radio proposition a substance, quality and profile that commercial radio, at this stage in the development of the market, could not have begun to fund. But if, as the market develops over the next few years, digital radio is to realise its full commercial and creative potential, there needs to be more definition and precision as to the range and scope of the BBC's role than there has been in this early start-up phase. This will be especially important as the new applications of digital radio to mobile platforms are realised.

4. The Current Digital Radio Market

An understanding of the background of today's digital radio market is crucial to any review of the players within it, and I make no apologies for documenting at some length the stages that it has gone through to reach its current state.

Commercial pioneers of digital radio took considerable risks in investing in this market at a time when there were no consumer sets on sale. This courage and determination has considerably influenced my judgement when assessing the potential impact the BBC services might have on these commercial investments bearing fruit. Furthermore, it is important to recognise how provisional and volatile this market is before one can judge the importance of the BBC's contribution to it.

4.1 The first digital services

The BBC can claim to be the original progenitor of digital radio. It started broadcasting its analogue services on digital in 1995 at a time when there were only five prototype digital sets in the country. At this time the digital dividend was conceived primarily in terms of superior sound quality.

However, it was commercial radio that first developed new content specifically for digital radio. This was a decision based more on visionary conviction than on obvious commercial calculation. By offering to reconfirm their analogue radio licences in return for developing the digital market, the Government had provided commercial radio companies with a real incentive. However, it was by no means obvious that investment in digital radio would successfully establish the platform to the point at which consumer demand would justify an expansion of radio stations.

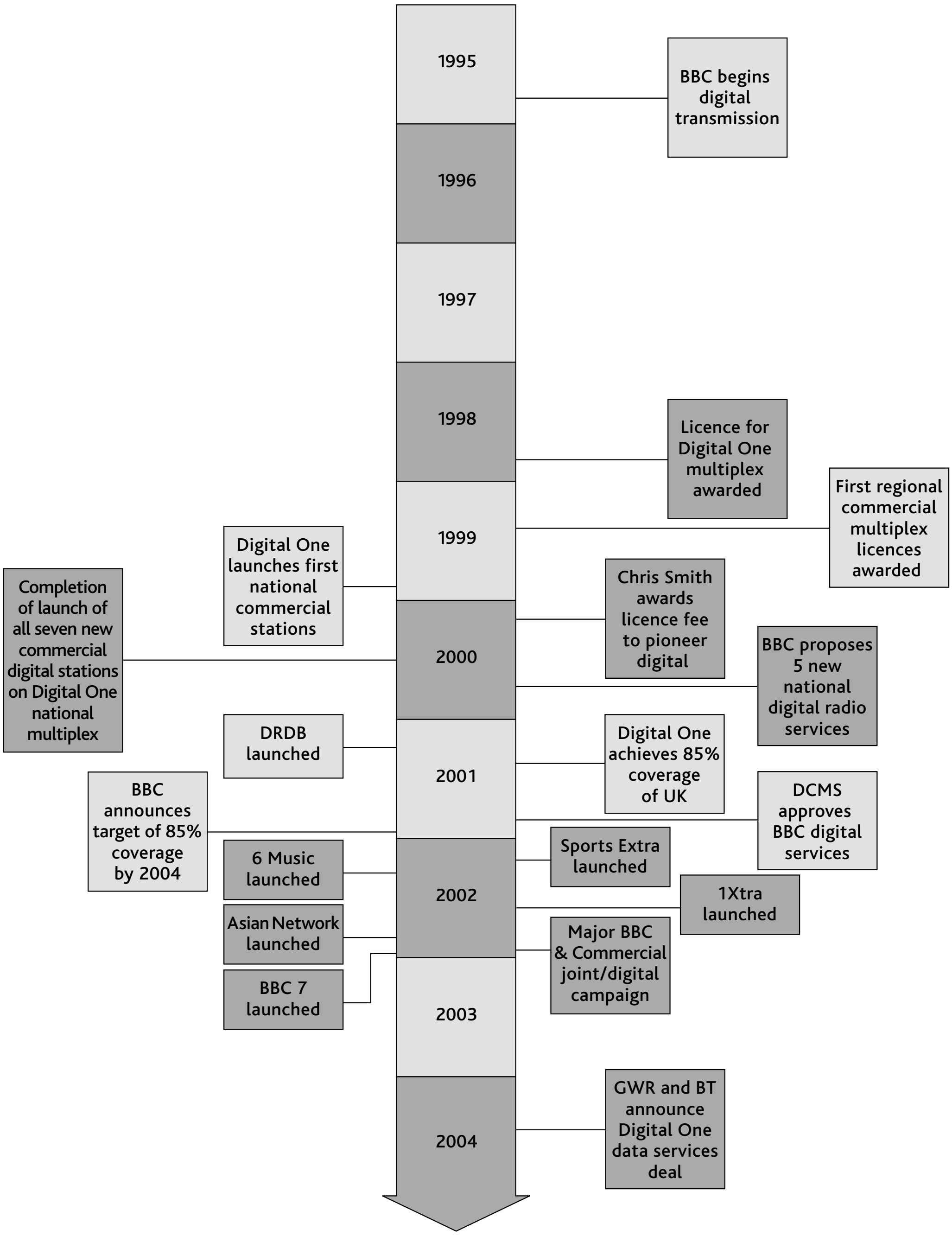
The first national commercial radio multiplex was awarded to Digital One, the only bidder. Ralph Bernard, Chairman of GWR, the major shareholder, was isolated in making the commitment. One rival at the time had concluded that "commercial radio knows a turkey when it sees one", and did not bid.

Yet between November 1999 and August 2000, Digital One launched ten national digital radio stations, seven of them new.[2] A number of consortia of commercial radio companies launched a network of local and regional multiplexes. A series of new commercial radio stations emerged and, after a concession by

2 The new stations were Core, Planet Rock, Life, Oneword, Prime Time, Bloomberg Radio and ITN News Radio. Two of these, the ITN and Bloomsberg stations, failed within 18 months. The space on the multiplex has been sold by Digital One to BT for the LiveTime project that will create DAB data services for mobile telephony).

the Radio Authority, local FM commercial stations were permitted to use the regional multiplexes to broadcast outside their transmission areas in different parts of the country for the first time[3]. In the past two years the outline of a national network of commercial radio stations has taken shape. The timeline below shows the major milestones in the development of digital radio.

Chronology: milestones in development of digital radio



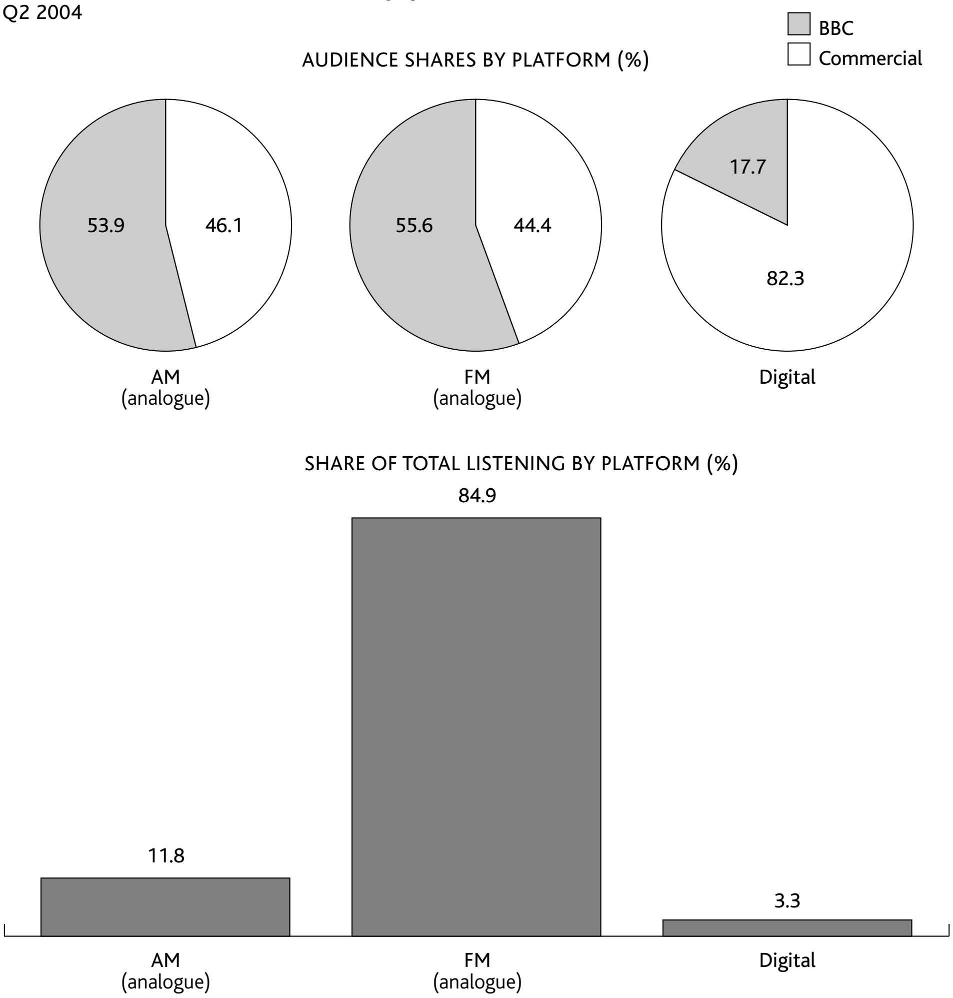
3 One of the most ambitious launches of a "quasi-national" station was EMAP's Smash Hits. This was launched on regional multiplexes in Tyne and Wear, Liverpool, Teesside, Central Lancashire, Manchester, London and Central Scotland. It also launched on DSAT and Freeview.

4.1.1 The commercial calculation

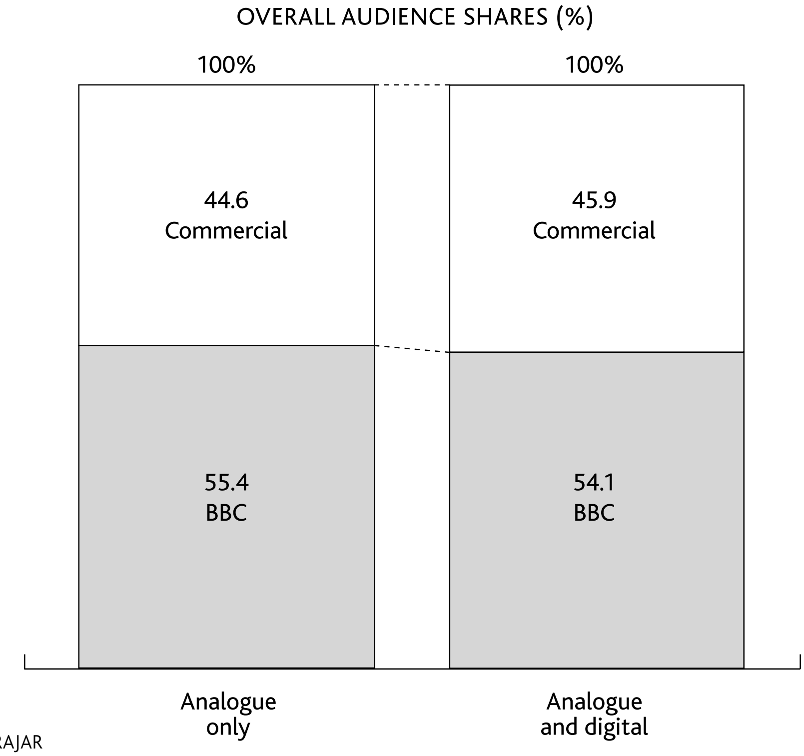
The launch of these commercial services was not simply idealism. It was based on long-term strategic thinking. The advantage of digital to commercial radio would be that, if ever digital transmission became the radio standard, it would redress the BBC's long established dominance of the FM frequency, where the BBC controls four out of the five national networks.[4] Digital Radio would therefore allow commercial radio stations to develop national networks with a far more reliable signal than that available to them on AM. Commercial radio's share of the audience would significantly increase at the expense of the BBC and so attract to radio a greater proportion of national advertising revenue.

As Exhibit 1 shows, the effect of listening to digital only stations, small as it is, has already had the effect of reducing the BBC's overall share of listening.

Exhibit 1 – Audience shares by platform
Q2 2004



4 These are the BBC stations 1-4; plus the only commercial national station, Classic FM.



Source: RAJAR

4.1.2 The Digital Radio Development Bureau

The BBC, having pioneered digital as a concept, then got cold feet for the rest of the 1990s. The BBC set out its plans for its own new services in December 2000, after the then Secretary of State had, the previous February, announced a substantial increase in the licence fee to fund digital expansion.

There had initially been some scepticism in the BBC as to whether digital radio was a sensible use of licence fee resources. The BBC's commitment to digital was in the end very much the result of the indomitable will of Jenny Abramsky, the BBC's redoubtable Director of Radio and Music. Even though digital radio would weaken the BBC's competitive position, removing its advantageous hold of the national FM spectrum, it was Jenny Abramsky's view that radio would become obsolete if it failed to embrace a technology that was revolutionising all other broadcast media.

In 2001, the BBC and commercial radio set up a joint enterprise, the Digital Radio Development Bureau (DRDB). It has brought together the British public and private sector broadcasters to argue forcibly to the manufacturers the case for the development of mass-market digital radios. The Commercial Radio Companies Association (CRCA) is fulsome in its admiration for the BBC's commitment and advocacy. There is little doubt that, without this unprecedented co-ordination between the BBC and the commercial sector, digital radio would not have got off the ground. The DRDB was instrumental in getting the key

British manufacturers[5] to develop DAB sets. This in turn has persuaded the extremely sceptical overseas manufacturers to commit to a technology where Britain is far in advance of the rest of the world.

One factor critical in persuading the manufacturers that there was a potential market in digital radio was the BBC's commitment to invest in new radio services.

The BBC was uniquely placed to:

- fund original content far in excess of what any commercial company could justify in such a fledgling market;
- employ material from its renowned archive;
- use its unrivalled power of cross-promotion to advertise its digital radio services across its television, analogue radio and online services.

As a result of this co-ordinated strategy, digital radio has begun to become established. But its final shape is by no means clear, and many issues concerning the balance between the BBC and the commercial radio services remain unresolved.

4.2 The distinctive nature of the digital radio market

To understand the nature of this market, it is important to recognise that digital radio is very different from digital television.

4.2.1 Spectrum scarcity

Unlike digital television, digital radio has not put an end to spectrum scarcity. There is still much unsatisfied demand for digital access, even though commercial digital multiplexes now cover 85% of the country. 50% of commercial FM stations cannot get onto a digital multiplex, either because the costs are too high or because there is no multiplex covering their area.

4.2.2 A single market

Digital radio has not created a separate subscription market as with television. The only viable business model for commercial radio in a digital world remains advertiser funding.

5 The leading UK manufacturers, Pure, Roberts and Goodmans, pioneered DAB. By the end of 2004, all major Japanese manufacturers will have at least one model on the market. There will be an estimated 129 DAB products on the market by the end of 2004.

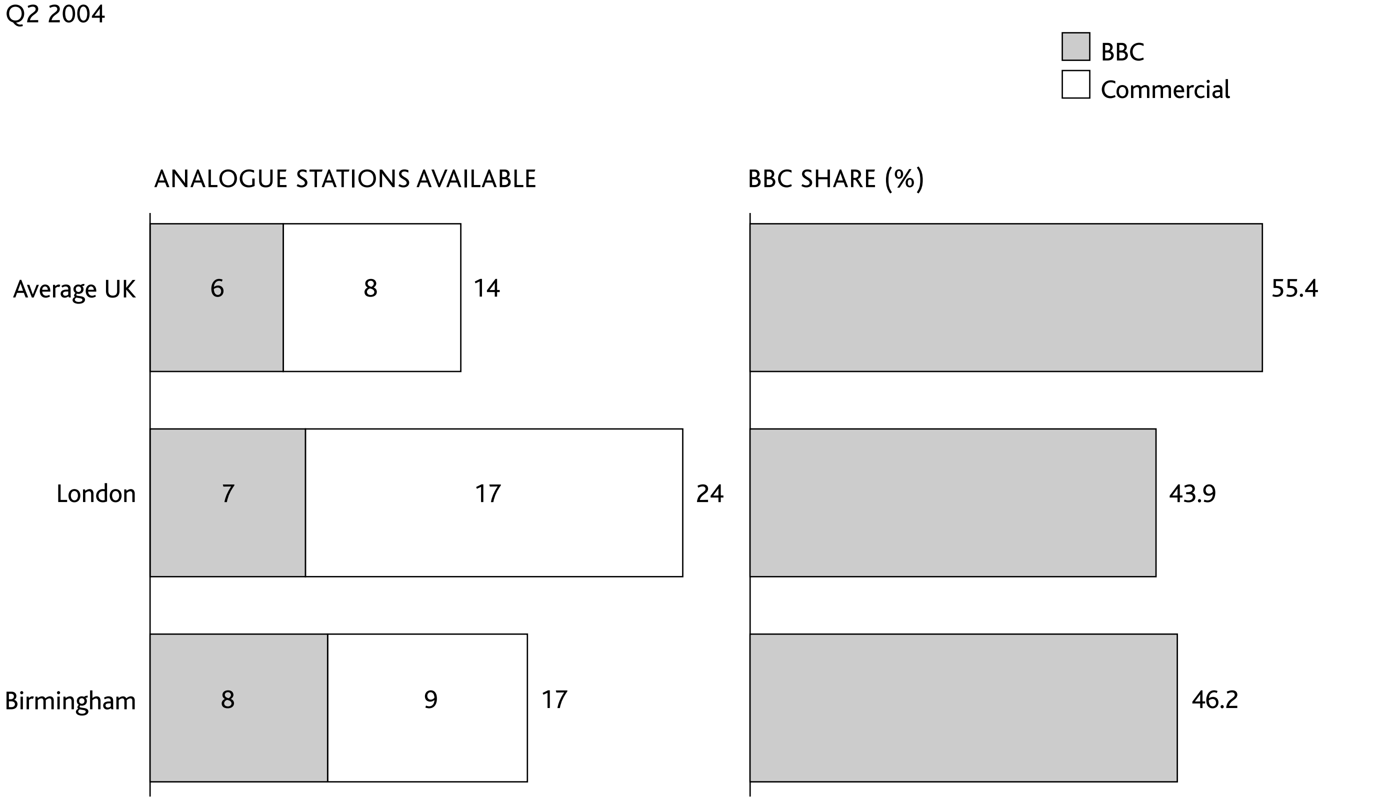
Consequently, when reviewing the impact of BBC digital radio services, one has not merely to consider the impact on the commercial digital services but the digital BBC stations' effect on all commercial radio. There is essentially only one radio market.

4.2.3 Digital competition

However digital radio, like digital television, does substantially increase competition in the market. In many ways, its impact could be even greater on radio than on television.

In the analogue world, regulation effectively limited commercial radio competition. National commercial stations were, with the exception of Classic FM, limited to the inferior AM frequency. Commercial radio on FM was built around regional and local licences that essentially segmented the market. It was a model based on complementarity, not competition. Only in recent years have the radio markets in London and Birmingham built up a range of directly competing stations. In these markets, the BBC's share is far lower than in areas where there are fewer commercial competitors.

Exhibit 2 – Audience choice & BBC share in analogue
Q2 2004



Source: RAJAR

Digital Radio will change this. As some regional FM radio stations build a wider audience in other parts of the country by taking up space on regional and digital multiplexes, so we will see the development of a number of quasi-national brands. Radio Joint Audience Research Limited (RAJAR) measures over 11 commercial stations with "quasi national" coverage, defined as analogue transmission and coverage on a digital platform – DAB, Sky or Freeview. As digital radio develops, the rest of the UK will become more like London and Birmingham with more directly competing commercial stations. In such a market, it is likely that the BBC's share will diminish.

4.3 Prospects for growth

The momentum behind digital radio has accelerated whilst this Review has been under way.

4.3.1 Sales of DAB sets

- The sale of DAB sets has accelerated in the past year. The number of sets has grown from 135,000 in December 2002 to 477,000 in December 2003. It is anticipated to reach over 1 million by the end of this year. Optimistic estimates expect 1.4 million. Some estimate that there will be as many as 16 million DAB sets in British homes by 2008. Even so, DAB sets only represent 0.5% of all UK radios. 27% of the population have listened to digital radio at some point. This compares with over 50% of households now having digital television.

- July 2004 figures show that national and quasi-national services have an estimated 3.25% share of the radio market. Awareness of digital radio has increased this year to stand now at more than 50% of the population.

There remain quite significant issues to resolve before success can be assured.

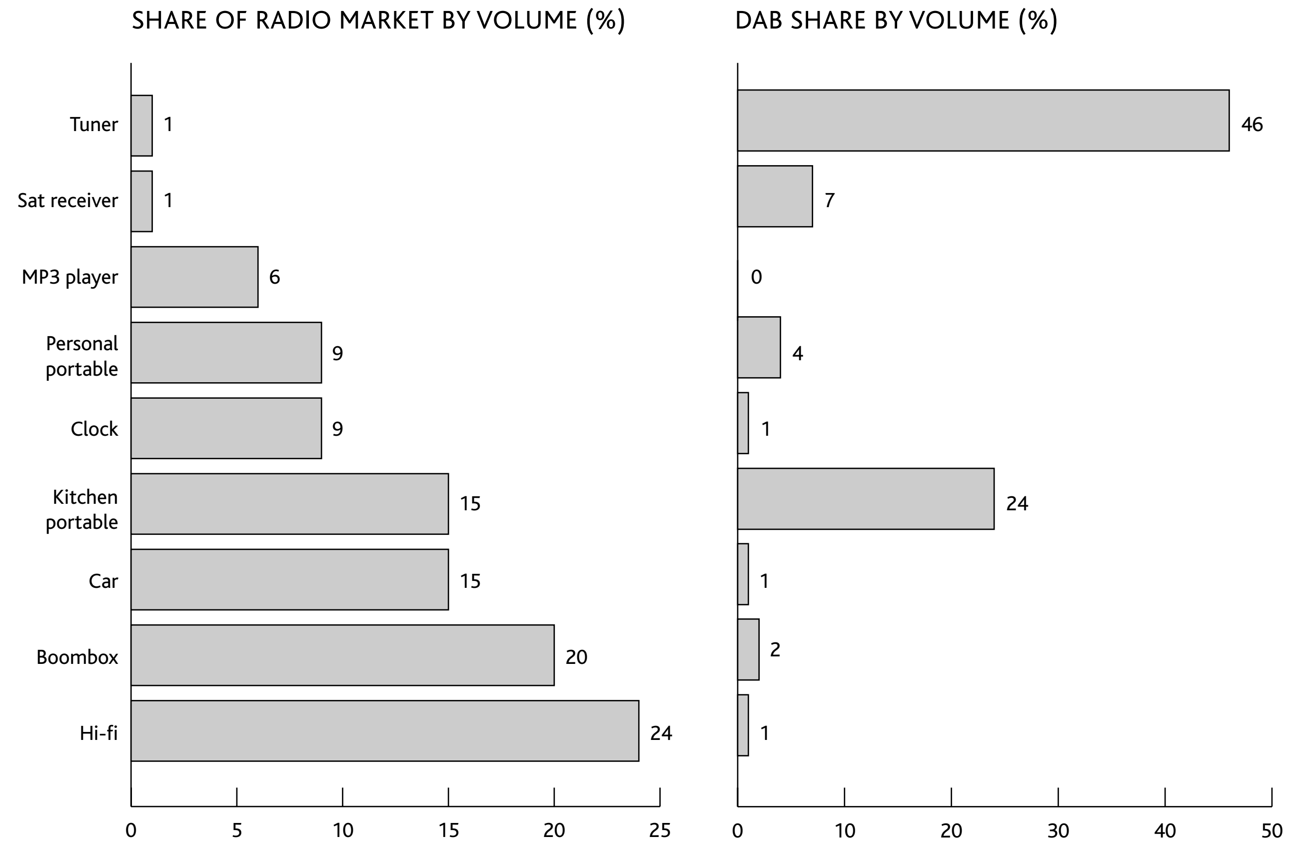
4.3.2 DAB sets

Until now, DAB sets have been bought not by the younger audience where the advertising revenue lies, but by the older upmarket listener. This is in large part because the most developed segment of the DAB market is the kitchen radio. Such models are now taking 67% of the value in their market. But such radios, the most classic and conventional portable radios, are only 10% of the total market and irrelevant to the younger generation that radio needs to attract. By the end of 2004, there will be a range of models at an affordable price, aimed at the younger listener entering the market. These listeners will not be attracted by the technology but by the branding of individual stations. If the younger market in 2004–05 is to get the same boost as did the older market in 2003–04, the BBC's continuing role in its promotion of digital radio, particularly towards younger listeners, will be vital.[6]

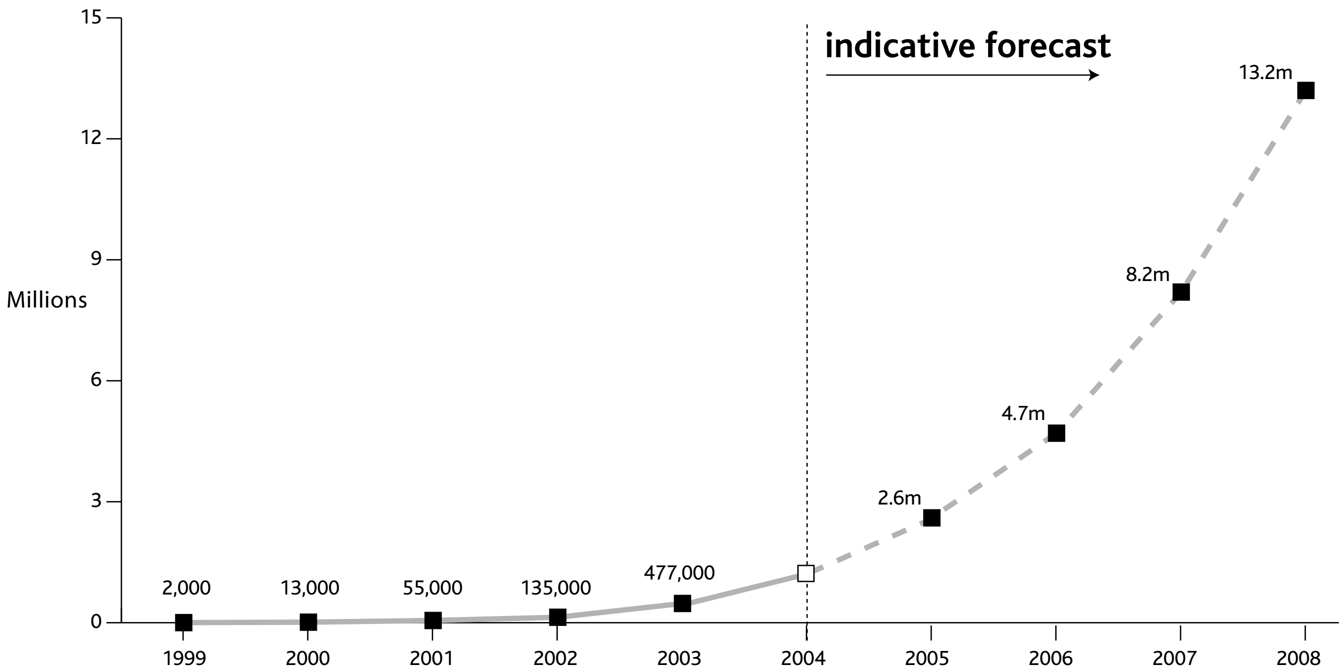
6 In May 2004, the mobile radio The Bug (manufactured by Pure) entered the market. By Christmas 2004, there will be nine models of DAB "boombox" radio/cd portable and 15 models of microsystems.

Exhibit 3 – DAB penetration by radio type

June-July 2004



DAB cumulative sales



Source: DRDB,Gfk

The more intractable problem has been the adaptation of car radios. Global car manufacturers will not easily invest in a radio technology as standard that does not work outside the UK.[7] In the latter part of this year, a digital car radio adaptor will come onto the market that will make digital car radio affordable. This is a key condition on the market continuing to grow.

4.3.3 Use by platform

Given the level of investment sunk into digital, there are still surprising black holes in our knowledge of how digital radio is being used.

We know that 28.8% of the population have at some stage accessed digital radio through digital TV, and that 17.5% listen at least once a week. We also know the number of page impressions and unique users of online digital radio services. We can calculate the numbers downloading material. RAJAR caculates that 15% have listened to radio on the internet at some time. 6.6% (3.2 million people) listen at least once a week.

However, we found some concern about the accuracy of audience measurement in a digital world. Many thought that the diary system, which has been the basis of RAJAR audience ratings, is not an adequate system in a world of multi-platform listening to an increased number of channels. The diaries are believed by a number of senior radio executives not to reflect accurately those services listened to online or on digital television receivers. Certain FM analogue stations, for example, are increasing their audience through digital listeners tuning in to a retransmission on a regional or local digital multiplex beyond the range of the station's FM coverage. However, it is at present impossible to break down a station's ratings by analogue and digital listening, or according to platform.[8] Hence, it is difficult for a commercial radio station to assess whether it is sensible to prioritise extending coverage through regional multiplexes or to regard digital satellite or Freeview as more important.

7 Vauxhall have now committed to DAB as standard in some of their models. This may spur on the rest of the market.

8 RAJAR is adapting its diary system to try to take account of this.

4.4 Summary

The creation of digital radio has been the result of remarkable will and considerable risk from the commercial radio sector. It would not have been possible without the unprecedented co-operation between the BBC and the commercial sector. Such a successful partnership must point to valuable lessons for the future development of public service broadcasting in the digital world.

Digital Radio will, if successful, increase competition and increase the commercial sector's overall audience share, at the expense of the BBC. This will attract a greater share of national advertising revenue, thus offering what has become a mature market a chance of further growth.

However, the success of digital radio is not yet assured. Only now are digital radio sets coming onto the market to attract the commercially valuable younger demographic.

Accurate audience measurement is potentially problematic.

Nonetheless, in two years digital radio has changed the medium's nature. It is a service that can be listened to on a variety of platforms and a new younger audience is identifying most strongly with these new platforms.

It is in this uncertain context that one must look in greater detail at the BBC's role.

5. The BBC's Role in the Digital Radio Market

This section builds on the conclusions reached in the previous chapter and tests the arguments put forward by some of the BBC's commercial competitors regarding the BBC's positioning within the radio market. It looks at the comparative aims and budgets for BBC and commercial stations and at the relationship between the BBC's digital services and the market as a whole.

5.1 The commercial complaint

The fact that the BBC was not first into the market producing content specifically for digital radio has been one of the reasons that its services have been seen as contentious in the eyes of some of its competitors. In general terms, the commercial radio sector has been admiring of the BBC's power and energy in driving digital take-up, and has recognised the quality of the services. But there is some suspicion of their potential for unfair competition, because of their positioning in relation to the rest of the market. The more aggressive analysis accuses the BBC of having waited to see what the commercial sector would provide and then, once the shape of the market had become clear, cherry picking its own services to compete against them. The BBC, it is argued, was able to do this by deploying far greater resources than those available to a commercially funded enterprise.

This is not a sustainable criticism. It is clear, from talking to the BBC and reading the documents surrounding the launch of the services, that the BBC wished to build on its existing portfolio, offering services it had hitherto not been able to provide. This did not mean that it did not want these stations to be competitive. If the BBC's services had not been designed to have a breadth of appeal to the potential audience, they would have failed in a central purpose, namely to help drive digital take-up.

However, it is fair to argue that the fact that commercial broadcasters first committed to investing in such a risky market puts greater obligations on the BBC to ensure that it continues to differentiate itself from those services when running its own portfolio of channels.

5.2 The BBC's approach

The BBC divided the justification for the launch of its five networks under two headings:

- **To reach licence fee payers it felt were under-served by its current services**. 1Xtra and the BBC Asian Network both target audiences that tend not to use other BBC services.
- **To derive better value for money in its use of its existing resources**. BBC 7 and 6 Music exploit the BBC's extensive speech and music archive respectively, while Five Live Sports Extra allows the BBC to extend its broadcasting under its existing sports rights.[9]

5.3 The BBC's place in the market

Although the BBC claims that each of the new services are distinctive and differentiated from the other BBC output, each BBC service is matched by at least one pre-existing commercial service serving a similar audience and with an arguably similar agenda.

1Xtra serves the same audience for urban music as Choice, Galaxy and Kiss, and the pirate stations.

The Asian Network is in competition with Sunrise, Yarr, Club Asia and numerous smaller Asian and Asian language services. (These include XL in the West Midlands, Sabras in the East Midlands and Panjab Radio in the Bradford/Huddersfield area).

6 Music is a rival to Xfm and has some overlap with Kerrang!, The Arrow and Planet Rock. It is in the same demographic market as the mainstream Virgin and Heart.

BBC 7 was launched two years after Oneword – the only national commercial speech network of its kind specialising in readings, comedy and drama – had launched as one of the channels on Digital One, the national commercial multiplex.

Sports Extra represents effectively the third BBC network covering live sport (the third being Radio 4 Long Wave) and thus intensifies the rivalry with TalkSPORT.

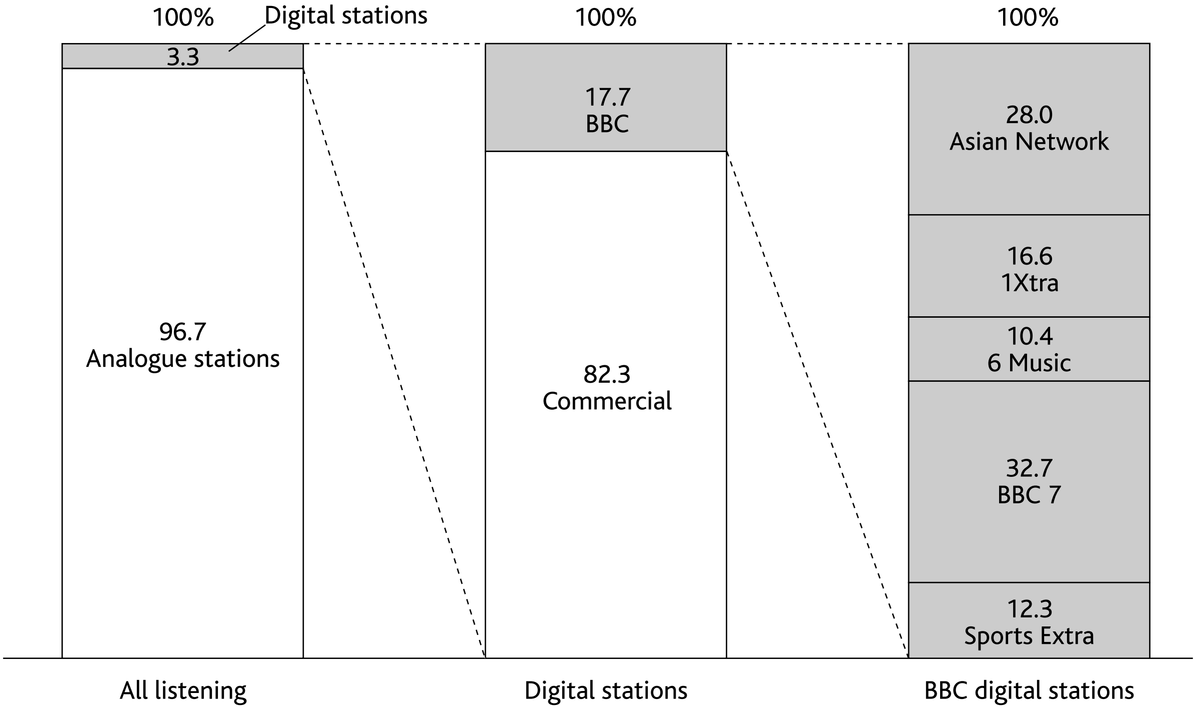
5.4 The BBC's share of digital listening

It is impossible to measure the total numbers who listen to radio on digital. One can only measure those stations that only broadcast on digital. They account for 3% of the total market. That small market segment is dominated by commercial radio stations, which account for 82.3% of the total. The five new BBC digital radio services account for 17.7%.

9 The individual service remits are discussed in greater detail in Chapter 7.

Exhibit 4 – BBC share of digital listening

Q2 2004



Source: RAJAR

5.5 Relative spend on digital radio

The digital radio project has been a model exercise in a public private partnership sharing risk. But the nature of the risk taken by the BBC and its commercial counterparts is very different, and difficult to compare.

The BBC services have a content budget far in excess of their commercial rivals.

The BBC's published budget figures for its five new services, amounting to some £20 million a year, merely represent the production/content budgets.[10] The BBC has provided for this Review its account of the digital services' total costs. These increase the BBC's spend to £25.8 million.[11]

The biggest commercial investors in digital radio are GWR, who have invested an average of 21% of operating profit over the past two years, Emap (20%), Chrysalis (18%) and Capital (13%). However, it is still difficult, in any meaningful sense, to compare the BBC and commercial figures. Annual spend at a commercial station tends to be between £500,000 and £1 million. But the vast majority of this will

10 1Xtra £5.1m, Five Live Sports Extra £1.7m, 6 Music £4.1m, BBC 7 £4.3m, BBC Asian Network £4.1m (*BBC Annual Report and Accounts 2003/2004*). The Asian Network's budget has since increased by £1 million to fund a daily drama.

11 The total cost figure excludes an allocation of corporate overheads. See Appendix 10.1 for full details.

be taken up in transmission costs. Investment in content is between £50,000 and £200,000[12], up to 40 times less than the BBC digital radio network content budgets.

The cost of the multiplexes to the individual BBC services (which varies between £328,000 for the Asian Network to £825,000 for 1Xtra,) appears to be somewhat less than the commercial charge of a national multiplex, which varies between £400,000 and £1.1 million.

Compared to the BBC, whose investment in digital radio amounts to just 8p per month of the £116 licence fee,[13] the proportion of operating profit re-invested by the commercial companies is of a different order.[14]

After four years, not one of these commercial digital stations is in sight of making a profit; most digital stations earn no revenue at all. The costs are written off as long-term development. In the words of one of the major commercial investors, "we are simply buying shelf space".[15] The first year revenue for Oneword, the national commercial speech radio network, which has been identified as a particular victim of the entry of a BBC competitor, was £8,000.

The new commercial digital stations are almost entirely music stations, some of them targeting niche audiences in a manner not possible within the limited availability of FM and AM frequencies. At the moment, they are for the most part jukeboxes, with very limited speech segments, almost all of which is recorded. However, it is the ambition of many of these new services to build to a fully live and locally versioned proposition over time, as audiences grow and revenue comes on stream as the market develops.

By contrast, the BBC has been able to launch its services, fully funded, from the beginning, and has even been able to enhance them for specific projects.

5.6 Cross-promotion

The BBC has also had the unrivalled power to promote the digital radio platform across its entire range of media. It has done this with a series of carefully judged campaigns that have been much admired by the radio industry as a whole. Digital radio has been incorporated into the BBC's overall marketing strategy. It was identified as one of the top 12 priorities of the year in both 2002 and 2003. BBC television and

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12 Oneword's content costs as a speech station are higher. See Appendix 10.2.

13 *BBC Annual Report and Accounts 2003/2004*, p.75.

14 See Appendix 10.2.

15 The multiplex operators however are making money, although much of their revenue on paper is in fact coming from the fees paid by their own stations on their multiplexes. Local multiplexes (average annual cost £80,000) are cheaper as they do not have the regulatory obligation of Digital One to invest in marketing digital radio. The Digital One multiplex, when full, covers its operating costs.

poster campaigns, coupled with cross-promotion on analogue partner networks, gave digital radio as a whole a profile it could not otherwise have received.[16] Whilst the commercial sector has asked that in future the campaigns could give as much detail of the hardware on sale as the BBC Freeview campaigns do, there is no doubt that the BBC's impressive marketing skills have been a dominant reason for the growth of digital radio.

5.7 Summary

In summary, there is a trade-off. The commercial services are far from being commercially viable. The BBC is launching far better funded services into the digital market than are possible in the commercial sector. But the BBC services are supposed to be sufficiently distinctive that they will not threaten the eventual success of commercial stations in the same territory. The BBC uses its unrivalled powers of cross-promotion, in television, radio and online, to promote its services and thereby the digital platform. The success of this platform should eventually enhance the competitive position of commercial radio at the expense of the BBC.

The most contentious point in assessing the BBC's digital radio services is how to make a fair and accurate assessment of this trade off. Such an assessment essentially involves a definition and calculation of the BBC's distinctiveness and its market impact.

16 Partner networks are: Radio 1/1Xtra; Radio 2/6 Music; Radio 4/BBC7; Radio Five Live/Sports Extra. There is no partner for the Asian Network.

6. Assessing the BBC's Role: Market Impact and Distinctiveness

The market impact of the BBC's services attracts so much attention because the BBC can appear to be such a formidable competitor to the commercial sector; deploying resources the commercial players cannot hope to match and playing to a startlingly different set of rules. It is not that the playing field is not level: in budgetary terms, the BBC is playing on a different pitch altogether. Yet its activities continue to have profound effects on the commercial sector's competitive strength and financial viability.

It is for this reason that we have been asked specifically to assess the market impact of the BBC's new digital services. This task is made harder by the fact that there is no agreed methodology for assessing the BBC's impact on the market.

6.1 Oliver & Ohlbaum market impact assessment

The BBC has addressed the issue by commissioning an independent report from Oliver & Ohlbaum.[17] The main thrust of the O&O report is an attempt to quantify the positive and negative effects of the BBC's services and arrive at a net figure for the services' overall economic impact. This is a laudable attempt to inject a measure of precision and objectivity into an otherwise tendentious and partisan debate, but it is not, in our view, entirely successful. Ofcom has looked into the issue at some length and come to a similar conclusion.[18]

O&O's methodology is to try to measure the BBC's impact on the commercial sector at two levels:

1. Quantifying the BBC's contribution to the economic value of the digital radio platform as a whole;

2. Quantifying the impact of individual BBC channels on advertising revenue within their market segments.

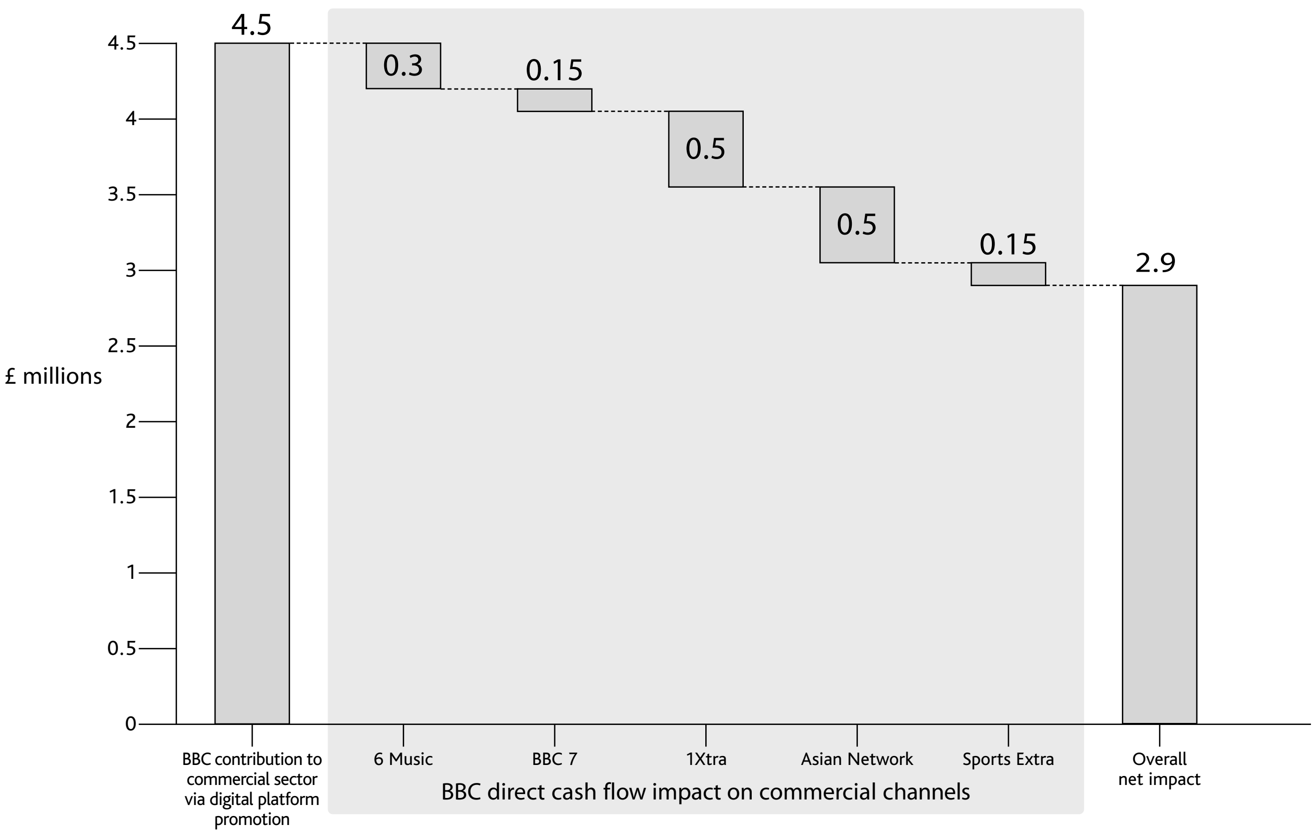
Everyone, including the commercial players, agrees that the BBC has made a very significant contribution to the establishment and growth of digital radio as a platform. Although it would not be true to suggest that digital radio would not exist without the BBC, there is no doubt that the total digital audience would be significantly reduced. Specifically, the audiences for commercial digital channels would be smaller: manufacturers would have been slower to bring digital receivers to market; and the audience would not

17 See Oliver & Ohlbaum *Assessment of the Market Impact of the BBC's Digital Radio Services*, 2004; available at www.culture.gov.uk.
18 Ofcom, *Assessment of the Market Impact of the BBC's New Digital Television and Radio Services*, (hereafter Market Impact Report); 2004; available at www.culture.gov.uk.

have been encouraged to discover digital radio by the BBC's extensive cross-promotional activity. O&O therefore conclude that the BBC's contribution to the value of the platform is positive and substantial.

At the channel level, the BBC's economic impact on the commercial sector is negative. It cannot sensibly be otherwise, since BBC channels take audience share and therefore revenue from their commercial competitors. However, using certain assumptions for cost per thousand and elasticity of demand for radio advertising, O&O conclude that the magnitude of the revenue loss to the commercial sector caused by the BBC's channels is relatively small.[19] As a result, the net overall impact on the commercial sector is significantly positive.

Exhibit 5 – Oliver & Ohlbaum market impact assessment (£m)



Source: O&O

19 O&O make an estimate of revenue lost by commercial services as a result of the BBC services entry into the market. These figures are notional. In reality few of these services have yet made any revenue at all.

6.1.1 Methodological shortcomings

There are two problems with O&O's methodology:

1. **The analysis is sensitive to key assumptions which are in practice impossible to verify**. The most significant is the quantification of the BBC's contribution to the overall value of the platform. O&O's analysis quantified this by crediting the BBC's new services with 50% of the value of the audience share increase commercial channels as a whole receive from the shift from analogue to digital. This is on the basis that the lion's share of the promotion of digital radio has been carried out by the BBC (although it is worth bearing in mind that the majority of the BBC's promotional effort is focused on individual BBC digital channels rather than the DAB proposition as a whole), and that BBC channels (particularly BBC 7) rate highly in surveys of reasons to purchase DAB.

   Ofcom, however, points out that it is possible to justify using a much lower figure (8% rather than 50%), since BBC channels account for a much smaller percentage of total digital listening. On this analysis, Ofcom reduces the BBC's overall net impact on the commercial sector from a positive £2.9 million to a negative £0.9 million.

   In truth, there is no satisfactory, objective way of choosing a figure for the BBC's contribution. There are also questions about the cost per thousand figures O&O use to calculate their revenue totals. This is partly because digital audiences are still worth very much less than analogue audiences, and partly because commercial stations sell only a relatively small proportion of their total advertising inventory, so the audience share calculation needs to take daypart into account.

   When an analysis can deliver contradictory results on the basis of competing and not obviously fallacious assumptions that are not readily susceptible to further refinement, it is time to look elsewhere for enlightenment.

3. **Even if the assumptions could be refined satisfactorily, it is not clear that the "net overall benefit" figure that results would have any real meaning**. The difficulty is that the commercial sector feels the impact of the BBC's activities at the level of each individual service, not at the level of the platform as a whole. It is perfectly possible for the BBC to make a highly positive contribution to the digital radio platform, while at the same time having an undesirably negative impact on an individual commercial digital radio service. Netting overall platform impact against individual channel impact is an inadequate way to assess market impact, because it provides no guide to detailed decision-making.

6.1.2 Implications for the BBC's public value test

This is an important point, because this aspect of O&O's methodology has found its way into the BBC's proposed public value test, which is otherwise a useful contribution to the debate about assessing the value of the BBC's activities.[20] The description of the "Net Economic Value" element of the public value test refers to "the net benefit to the wider media economy" and suggests that "a net calculation will be made".

The "Net" concept is dangerous here. At its most extreme, this approach would allow the BBC to do what it likes at the individual channel level as long as it makes a significant enough contribution to platform development. This clearly cannot be what was intended. Assessments of the market impact of new and existing services have to be made in the context of the individual market segment within which the service is set to operate. When making decisions about the launch or future development of an individual service, the BBC's contribution to the platform as a whole is irrelevant, quite apart from being impossible to quantify in a satisfactory manner. The BBC should receive credit for its contribution to the platform, but this needs to be seen as meeting a distinct and separate objective: the promotion of digital take-up is explicitly set out as a separate, general condition in the Secretary of State's original approval.

At the individual service level, it is inevitable that BBC services will have a negative economic impact on their commercial counterparts. They take audience share, so they take revenue. The issue is how to assess this in a qualitative fashion, so that the analysis can be a useful input into an evaluation of whether the impact is proportionate to the public value the service generates.

6.2 A competition-based approach

Rather than try to quantify market impact in terms of lost revenue to the commercial sector, both the Graf report on BBC Online[21] and the Ofcom report[22] propose a competition-focused approach to assessing market impact. This looks at impact on the process of competition in the relevant segment. This approach is commonly used in competition regulation. In its application to a nascent market like digital radio it is essentially a qualitative analysis. It considers competition as a dynamic, ongoing process, so it needs to look forward as well as back. This is the approach we have taken in this Review.

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20 BBC *Building Public Value*, 2004.

21 Philip Graf, *Independent Review of BBC Online*, 2004.

22 *Op.Cit.* Ofcom Market Impact Report.

The question we need to answer is whether the launch (or subsequent development) of a publicly funded service has tended to reduce the process of competition within the relevant market segment. We acknowledge there will be an impact in the sense that a BBC service is bound to some extent to take revenue from a commercial service. This will only prove problematic, however, if it leads to a reduction in the competitive pressure which drives innovation and improvement.

We need to look both at the impact of the service as a whole – has it acted to "crowd out" commercial investment by reducing the available audience to the point where commercial services are unviable – and at the impact on critical inputs such as programming costs, talent costs and the skill base for the segment.

The primary reason for the commercial sector's concern is the level of resource the BBC can bring to bear. As we have already seen, the BBC's digital services are funded at levels inconceivable to the commercial sector, and they operate without the need to provide a financial return on that investment. Until now, the effect of this resource imbalance has been limited: as the O&O report points out, in radio, unlike television, it has not in the past been the case that increased content investment necessarily delivers increased share of audience.[23] The segmented nature of the radio market has meant that the chief determinant of ratings has been the station format.

The advent of digital changes this. It brings with it a greater range of station formats and a significantly higher level of competition throughout the market. Stations will have to compete to attract and retain audience share, and the BBC's access to greater resources becomes commercially much more significant.

6.2.1 Impact on investment climate

Looking forward, we also need to consider the BBC's impact on the investment climate in the sector. A point frequently made is that the BBC's self-regulatory regime allows it the scope to make rapid and significant changes to station formats in pursuit of greater audience share in a way which discourages commercial investment. The successful re-invigoration of Radio 2 and subsequent sharp increase in Radio 2's share of the commercial sector's most valuable demographic (25- to 45-year-olds) is a fresh and painful memory in many executives' minds in the commercial sector. Could 6 Music, for example, be repositioned and relaunched to take aim at the commercial heartland of classic rock stations, so that it would compete for audiences with Virgin, Heart and the wide range of "gold" stations as well as Xfm,

23 The local nature of FM radio licences has assured stations advertising revenue because of limited local competition in most areas. It can be argued that this is a bad thing. There has been little incentive for commercial radio to improve content through investment.

Kerrang!, The Arrow and Planet Rock? The Radio 2 experience shows how effective the BBC can be when it focuses its mind – and its unparalleled resources – on increasing audience share.

6.2.2 Format flexibility

The solution most often proposed is to set the BBC's format obligations for each channel in stone, so the commercial sector can plan investment on the basis of a known BBC channel line-up.

This is a real and pressing issue. The BBC should not be an obstacle to investment in the radio sector. However, it is not clear that arresting the development of the BBC's formats is the right answer. It is a clear reduction in competitive pressure in the market: all this would effectively do would be to reduce competition for quality.

There is an argument, addressed later,[24] for greater clarity in the remits for the BBC's services. However, it is not clear that it is in the public interest to make channel formats much harder to change. Tastes evolve, and channel formats need to evolve with them. Radio 2 could not have stayed in its postwar time warp forever. The BBC should be a force for innovation: it has the luxury of being able to take creative risks the commercial sector cannot contemplate.

6.3 Focus on distinctiveness

We suggest the solution lies in maintaining a determined focus on the distinctiveness of the BBC's services rather than setting them in stone.

The BBC's power and immense creative energy needs to be directed where it will deliver the greatest benefit to the audience. This is not in replicating services the commercial sector can provide. At its simplest, this is an argument about value for money. The BBC's strengths in radio lie in editorial quality, not cost reduction. We have already seen how the BBC's digital radio budgets are several orders of magnitude greater than in the commercial sector. There is a clear relationship between editorial quality and cost, whether it be the provision of dedicated news gathering and journalistic teams on 1Xtra and the BBC Asian Network, or in the commitment to live recording and high profile presenters on 6 Music, or funding original children's production and the clearance costs of the BBC archive on BBC 7. To justify these levels of expenditure, the BBC needs to be able to argue that it is providing a service distinct from that which the commercial sector can provide. If a BBC service is not distinctive, then it is practically

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24 See Chapter 8.

inevitable it will cost far more than a commercial competitor without delivering significant additional benefit. It is very hard to see the public value in that.

6.3.1 Defining distinctiveness

When the commercial sector makes these arguments, it tends to define distinctiveness as meaning appealing to narrow audiences. There is an implication that when it operates in a commercially competitive sector, the BBC should either focus on a very narrow segment or make sure it includes plenty of worthy, "public service" material the audience does not really want – lots of speech on a music station, for example. This is not a satisfactory definition of distinctiveness. As the BBC's public value test proposes, there needs also to be a clear link with what the audience wants. The challenge for the BBC is to provide services that are both popular and distinctive.

The BBC's commercial critics frequently define distinctiveness in demographic terms: the BBC should focus on audiences the commercial sector ignores – so it should not seek to serve the commercially valuable 25 to 45 demographic, but concentrate on older listeners and minorities.

This disregards what could equally be argued as a significant market failure in commercial radio, namely the comparative paucity of content investment across much of the output. The BBC has always argued that because the licence fee is universal, its editorial ambitions are unrestricted by commercial calculations and its services should be available to all.

The BBC rightly rejects being cordoned off in a public service ghetto. Jenny Abramsky, Director of BBC Radio and Music, defends the "basic instinct" for competition between the BBC and the commercial sector while supporting joint action in the wider interests of promoting digital radio. Both compete for audiences but offer different things.

The BBC offers more range. It offers greater range and quality of the editorial production of speech and its relationship to the music output, as well as the range and originality of the music played and the consequent stimulus to public taste that comes from risk-taking and breaking new talent.

At the Birmingham Radio Festival this year, Jenny Abramsky said:

"What a public broadcaster must do in the 21st century is grow talent, develop public taste, underpin cultural life [...] Commercial radio, understandably, reflects what the public like, but you need the BBC [...] if public taste is to grow."

This is the BBC's justification for the licence fee, regardless of market impact.

However, the BBC has to prove that it is indeed delivering this distinctiveness against a clear set of objectives. Until now the obligation to be clear about remit commitments has been far greater in commercial radio licences and formats than in the BBC's self-regulated definitions. At the BBC, the individual networks' objectives have been largely part of a received culture and never spelled out or quantified with the same precision. This vagueness of self-regulation has been the chief point of contention between commercial radio and the BBC.

6.3.2 The Secretary of State's view

The Secretary of State in fact has laid out a carefully judged view of the BBC's delicate relationship to the market in the Approvals for the BBC's new digital services:

"The BBC is big but not over mighty. It should have an important but not overpowering presence in the digital future as a presence not only shaped by the competition, but which also helps shape the competition as the two interact.

If it maintains its historic standards…if it reaches out to new audiences in the digital world, if it challenges the market to do even better, then the BBC has nothing to fear and everything to gain."

She also gives a clear definition of distinctiveness:

"The Secretary of State has concluded that each approved service is distinctive and that its likely impact on the market is proportionate to its public value. This does not mean that the subject matter must necessarily be different to what the market will provide…In some cases it is clear that there will be other services with which the BBC may be in competition…The factors considered by the Secretary of State include the amount of new programming and how far it will specifically reflect the UK's cultural interests and diversity, adding to the choice for licence fee payers."

6.4 Summary

In summary, any judgements on the BBC services should have a wider perspective than simply that of remedying market failure. The objectives of BBC distinctiveness must be:

- To attract new audiences
- To add choice
- To provide new content and ideas
- To offer the market competition for quality
- To offer value for money
- To promote UK cultural interests and diversity

It is on the basis of these criteria that the individual services will now be reviewed.

7. Individual Service Performance Assessments

7.1 Introduction

In this chapter I assess the five individual BBC digital radio services against three benchmarks: the BBC's original proposals, the Secretary of State's Conditions and Approvals, and the subsequent BBC Statements of Programme Policy. I judge whether the Secretary of State's conditions have been met. I have published the relevant sections from all these documents at the start of each assessment to show the totality of the BBC's undertakings.

The Secretary of State laid down general conditions for the digital services and specific conditions for each of the specific services. These are published below.

I also lay out a summary of who is listening to each of the services and how.

For each service I lay out:

- the BBC's assessment of the station's performance
- the feedback from listeners
- the views of the station's competitors

I follow this with an assessment of these factors against the Secretary of State's Conditions and Approvals, paying particular regard to quality and range of the speech output, the distinctiveness of the music (where appropriate), and the market impact.

At the end of each service assessment I lay out recommendations specific to that station.

DCMS GENERAL CONDITIONS	o That high general standards in all respects (and in particular in respect of content, quality and editorial integrity) be maintained in relation to each service. o That the BBC Governors monitor the implementation of the new services and report each year in their annual report on their delivery in line with the BBC's commitments and the conditions set including an analysis of the distinctiveness of the service. o That there will be a periodic review of the services by the Secretary of State. Such a review will involve seeking detailed confirmation from the BBC that the Corporation is acting in accordance with the facts and assurances upon which the approval was given. The review will include an independent assessment. o That the BBC must deliver the format as proposed for each service and meet all the commitments set out in the information from the BBC. The fact that some aspects of the format and commitments to which the Secretary of State attaches particular importance form the subject of express conditions in Part 2 of this Schedule does not prejudice the more general effect of this condition in relation to the services concerned. o That the BBC shall draw up and publish a plan for promoting digital television and radio services by the end of 2001 and shall commit to and undertake a vigorous and continuing campaign to promote the uptake of digital TV and radio services and equipment generally. o That each service shall stimulate, support and reflect the diversity of cultural activity in the UK within the defined scope of the service. o That all new radio services shall be available on the same basis as other radio services via the internet and digital satellite.

The first two services reviewed, the BBC Asian Network and 1Xtra, share a common agenda in that they are designed to reach audiences that were previously judged to be under-served by the existing BBC networks. The two services have taken very different approaches to their brief, each of which raises difficult questions about where the BBC's priorities and focus should lie.

7.2 The BBC Asian Network: evidence

7.2.1 Summary of remit

The BBC Asian Network resulted from the recognition that the BBC services were failing to attract Asian listeners.

The Asian Network offers a general mix of music, speech, sport and latterly drama to Britain's Asian community. The programmes are aimed at Asians under 35 but also first, second and third generation Asians and all communities whose origins are the Indian subcontinent.

The principal language of broadcast is English, though there are programmes in five Asian languages – Hindi-Urdu, Punjabi, Mirpuri, Bengali and Gujarati.

The network was launched in October 2002, though it would more properly be called a re-launch. Before it went national on the digital platform, the station was a regional entity, broadcasting on AM from Leicester as the BBC Asian Network. The Asian Network, therefore, is not a brand new concept but a station that has evolved from a local to regional to national footprint.

In September 2000, the BBC stated that the Asian Network would give "a full and fair view of the various Asian communities throughout the UK, reflecting back to themselves and to the wider community". Its budget was set at £3 million per year.

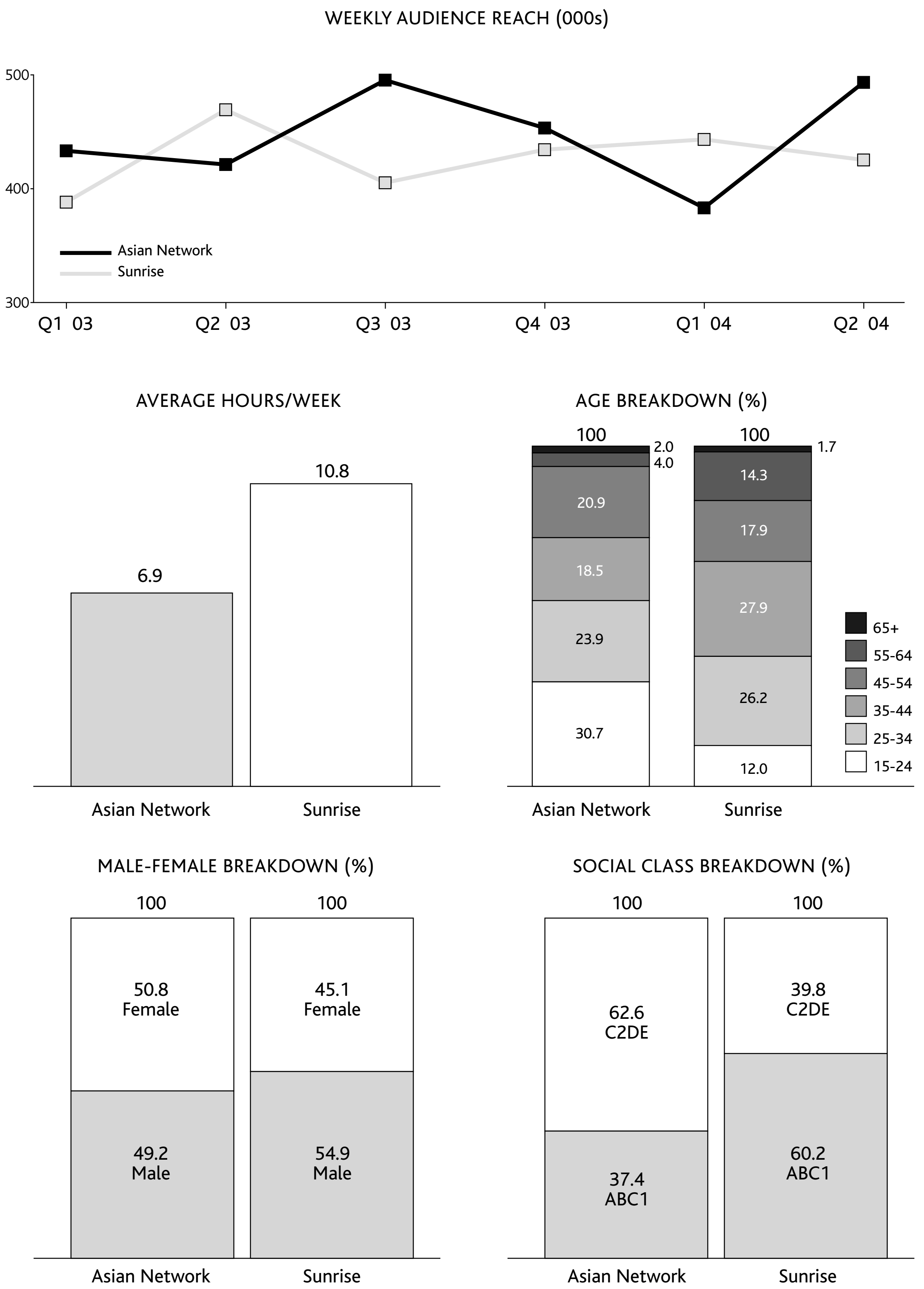
Proposals, Conditions and Approvals

BBC ORIGINAL PROPOSALS	o The Asian Network will be a new service nationally but is already available in the Midlands, parts of Lancashire, Yorkshire and Cambridgeshire. o The Network will be the only national network focused entirely on the interests of Asian audiences in the UK, giving a full and fair view of the various Asian communities throughout the UK, reflecting back to themselves and the wider community. o The service offers a wide range of programmes, from news and current affairs to entertainment and music. o The service is primarily in English but includes three to five hours of language programming every day, rotating between Hindustani, Hindi/Urdu, Bengali, Gujarati, Punjabi and Mirpuri.

DCMS SPECIFIC CONDITIONS	o The service will offer nationally programmes in English and a range of Asian languages covering news, current affairs, sport, audience participation and a wide choice of music. o The service must deliver to the format set out in the BBC's application – in particular that speech content should be 50% and a strong focus on news and current affairs. o It must address the needs and interests of a wide range of Asian communities within the UK. o The BBC should consider carefully the use of spectrum and consider making available spare capacity when the national service commences.

Exhibit 6 – Asian Network audience comparison to Sunrise FM[1]

Q2 2004 (all figures adults 15+)



ASIAN NETWORK SATISFACTION RATING: 7.5 (average BBC Radio 7.1)

[1]Sunrise FM figures for London analogue service only

Source: RAJAR, BBC

7.2.2 The BBC's view

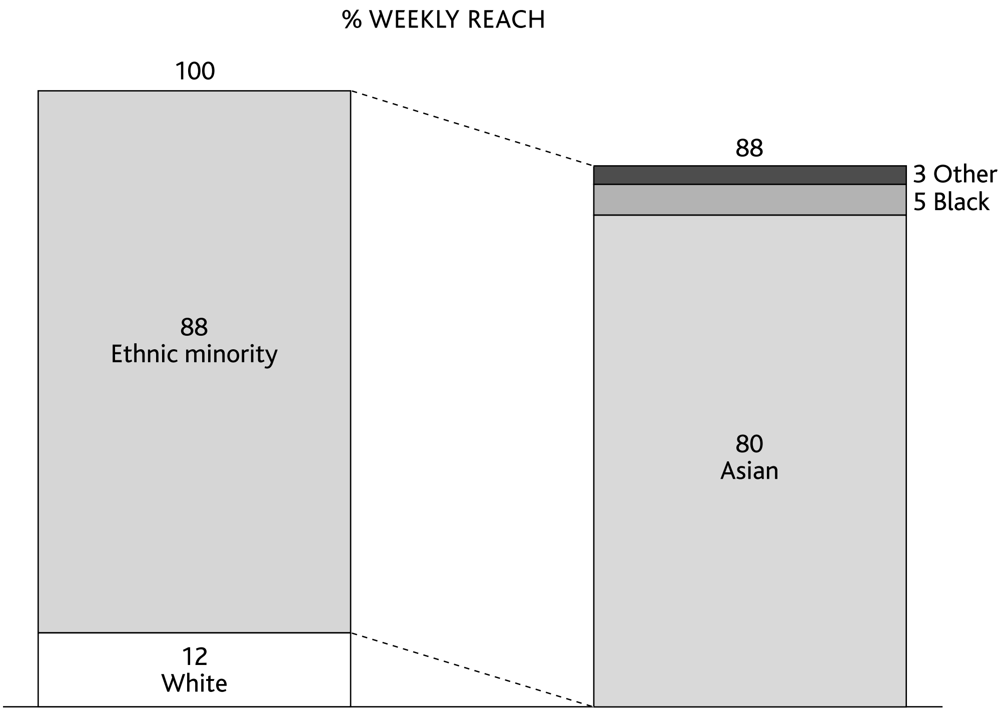
The Review by the BBC Governors does not give a verdict on the Asian Network's performance, but states that the BBC's commitment to under-served audiences proved "justified". The Governors, quoting from the O&O Report in its support, believe that it is sufficiently distinctive from the competition.

The BBC's analysis of performance against targets makes it clear that it feels the Asian Network has acquitted itself well. It has more than met its commitment to providing 50% speech by providing 58% speech: 36.6% news and current affairs; 21.8% contextual speech.

The new daily drama series Silver Street, which began in 2004, is seen as a major investment in talent and to provide a key point of distinction for the station.

As stated above, one of the key purposes of the Asian Network was to provide a service to an under-served community. With of 80% of the audience Asians the station has, therefore, helped the BBC serve a group of licence fee payers who have traditionally fallen outside the BBC's reach.

Exhibit 7 – Asian Network audience by ethnic origin
Q1 2004



Source: RAJAR, BBC

Looking forward, the BBC's Governors hope to see a widening of the Network's news agenda while the Network's own review focuses on its ambitions for its daily drama series and seeks to increase its reach to two fifths of the UK Asian population.

Until digital radio has greater penetration, the BBC has argued for the retention of the AM frequencies in the West Midlands which also broadcast the network.

7.2.3 The competition's view

The principal criticism of the Asian Network has come from Sunrise, the largest Asian commercial network[25]. Their main points are as follows:

- **The Asian Network proposition is not distinctive enough**. The charge is that not only has the station targeted the section of the Asian community that is most commercially attractive, but that both the formats and the key presenters replicate what Sunrise has been offering listeners.[26]
- **The Asian Network's programming offer should also target the smaller Asian communities which commercial stations don't reach**: eg South Indian communities such as the Tamils, and Singhalese. This, it claims, would make it more distinctive. Sunrise argues that there is little need for an Asian Network because the commercial Asian stations have been developing radio for many years and they now reach 90% of the Asian audience. Instead, the BBC should create a multi-ethnic station with a remit to reach a wider range of under-served communities such as the Chinese, Arab, Afghans, Kurds and others. This point was also made by Chrysalis Radio.
- The impact of the Asian Network on the revenues of the commercial Asian radio stations is seriously underestimated by the market impact study by Oliver & Ohlbaum. The O&O report does not appreciate the specific nature of the Asian revenue model. It over-emphasises national advertising revenue and undervalues the contribution to their income stream of sponsorship and events. Whereas O&O calculate the market impact to be £500,000, Sunrise calculate the impact to be of £2-3 million over the next two years.[27]

25 Sunrise broadcast on FM in Bradford and Greater London , and on digital multiplexes in Greater London, Birmingham, Coventry, Edinburgh, Glasgow and Wolverhampton. Sunrise is also on DSAT and broadcasts online. Yarr Radio, owned by Sunrise, for young Asians, is available on digital multiplexes in London, Coventry, Wolverhampton and Bradford.

26 Sunrise also says that the BBC has "poached" a number of its presenters, offering them more money than a commercial station could afford to.

27 By offering coverage on the Asian Network of Asian events, such as Melas, the BBC is taking revenue from commercial stations that rely on advertising revenue that their coverage of such events previously attracted from the Asian business sector.

- **There is no prospect of a commercial national Asian station to compete with the BBC's digital service in the long term**. As there is no available digital capacity for such a development, Sunrise fears that the future for commercial Asian radio looks bleak. Sunrise believes that Asians identify themselves as part of a community, wherever in the UK they are situated. A national BBC Asian Network will therefore inexorably become the dominant provider of radio services to the Asian community. Commercial Asian radio will become marginalised as a result of the limitations of their localised coverage. Sunrise estimates that, without a national commercial counterpart to compete with the BBC, the BBC will have a 70% share of the Asian audience in five years.

7.2.4 Peer reviews and audience research

The peer reviews for the Asian Network were commissioned with a view to getting an independent assessment of how the service was received in the under-served communities it targeted. The peer reviews, by influential Asian opinion formers are, perhaps unsurprisingly, more trenchant than the responses of the listeners themselves.

7.2.5 Peer review

Summary of conclusions:[28]

Strengths

- The Asian Network offers a rich mix of music with a distinctive playlist from Hindi sound tracks to cutting edge sounds.
- The Network provides a platform for new Asian artists. One review quotes Mohamed Ayub, owner of Oriental Star Agencies: "With the Asian Network, we get a fair shot and our music is played."
- Sports and news coverage is geared towards issues ignored by the mainstream.
- The Asian soap, Silver Street, is an original contribution.
- It has developed new talent, on and off air.
- It offers something different to the Asian commercial stations.

28 The full report can be found in Appendix 10.5.

Weaknesses

- It could be more varied in content. It assumes Asians are interested only in Asian issues.
- The editorial standards do not always match the audience's expectations of the BBC.
- The quality of the presenters is too uneven.
- The language programmes focus on the people of North India. The Tamils and Singhalese are not catered for.
- There is a lack of ambition in the programming genres: there are no documentary features nor "a magazine programme that deals with diverse issues from Sharia Law to finance".
- New cutting edge Asian music is often played on 1Xtra, Club Asia and Radio 1.
- The Asian Network needs more promotion.

The overall messages are:

- The Asian Network is a welcome addition to the programming on offer to the Asian community.
- The mix of music is generally appreciated though it could be more adventurous.
- It needs to be more ambitious in its journalism, especially in current affairs.
- It needs to improve its presentation – to keep standards on Asian Network as high as elsewhere on the BBC.
- It needs to broaden its appeal to include, for example, the Tamil and Sri Lankan communities.

7.2.6 Audience research

The audience research conducted among listeners and potential listeners to the network from the Asian target audience was more positive than the tone of the peer reviews.[29] Listening has now spread from the West Midlands to London, although this is due to online and digital TV. There is little take-up of DAB.

29 The full report can be found in Appendix 10.6.

The Asian Network is seen to be different from its commercial counterparts in its overall image, style, and the quality of news and current affairs (particularly the editorial quality of the discussions). One of its presenters, Sonia Deol, is becoming the audience's champion.

There is a clear perception that the Asian Network has shown Sunrise to be a little old fashioned and disconnected from modern, third generation Asian culture. This generation, while committed to contemporary Asian culture, identifies itself as entering the British mainstream, rather than defining itself as from an ethnic minority.

In particular, this is felt when comparing the quality of presenters. The BBC Asian presenters, despite some inexperience and inconsistency (which is criticised), have a freshness and energy with which the younger Asian audience identifies. Equally the Asian Network is differentiated from Club Asia, which is recognised as a cool young Asian music station for teens and young adults.

Its distinctiveness as a speech station is recognised. There is a desire among some of the viewers for it to build on the BBC's public service reputation by promoting more community and social action initiatives.

It generates some notable loyalty, often as a result of its roots in local radio. Listeners have an awareness of its history.

However, for some, the Asian Network's targeting of its audience is confusing. Is it there for the modern British Asians or is it trying to include older, more traditional listeners? Although the BBC has identified the core listener as the young Asian male aged 28, the audience that seems to identify least with the network is young Asian males. They appear less interested in Asian focused programming.

The Asian Network is in part still trying to move beyond its past identity as a local service with strong roots in the West Midlands. Those who have listened to it over time miss the former intimacy they value with local radio. This suggests that commercial radio's localness may be an enduring strength with this audience and Sunrise's concerns about the effects of the BBC having the only national network may be misplaced.

7.3 The BBC Asian Network: assessment and recommendations

7.3.1 Performance against Conditions and Approvals

In formal terms the BBC has met the conditions set down by the Secretary of State.

The Network has exceeded its target of around 50% of speech, broadcast on average six hours of programming a day in a range of Asian languages, and has connected with a wide range of Asian communities via phone-ins and the website. It has covered a range of British Asian, Bollywood, Lollywood, Indian pop music and devotional music, and its play list contains 40% British Asian music. Furthermore, the introduction of an Asian daily soap drama extends the remit and character of the network and is unique in UK radio. The station has also used its website with real imagination to put faces to the characters to bring its soap characters alive for an audience unfamiliar with the concept of radio drama. It has also covered sport, notably its initiative in carrying the India-Pakistan Test series.

However, there is a perception that the service overall is focused on people of North Indian and Pakistani ethnic origin – for example, there is no provision for Tamil or Singhalese listeners.

7.3.2 The remit set by DCMS

There are several underlying issues that are not captured by the Secretary of State's Conditions. The Network's vastly superior resources – its programme budget of £4.2 million, rising to £5.2 million since the addition of a soap – should indeed make it quite noticeably distinctive and differentiated from the competition.

The DCMS's original specification does not set the Network a sufficiently distinctive or ambitious remit. This should encourage the Network to build on the most innovative aspects of its coverage to date.

7.3.3 Distinctiveness

Audience

The Asian Network is defined by its target audience – the content flows from this. The BBC defines its other stations, including the new digital ones, by their content. For example, 1Xtra, designed to reach a younger Black audience, is defined by its content "urban music". Although the creation of both 1Xtra and the Asian Network was justified by the BBC's need to reach under-served audiences, there seems no clear philosophical or editorial explanation as to why the two stations differ in their approach in such a fundamental way.

The fact that the Asian Network was defined by its audience has a number of consequences. On the positive side, its audience comprises a significantly higher proportion of its target listeners. Some 80% of its listeners are Asians compared to 1Xtra which secures only 18% of its core audience, young Black listeners. In the immediate term then, this definition of a station by demographic target has paid off. However this also results in a station that has to be "all things to all Asians". The audience research reflects this lack of clarity as to whom the station is for in the Asian community. The station has in its mind's eye a "28 year old Asian male", yet offers programmes in Asian languages for the elderly, has launched a "soap", plays Bollywood music and discusses Bollywood stars – all of which seem to be aimed at groups other than young Asian males.

In defining itself by its audience, and not by specific content, the station has left vague the distinctiveness of its editorial proposition. It needs to develop a clearer and more distinctive creative and editorial purpose based on content. There are two reasons for this:

1. Commercial radio stations such as Sunrise also define themselves by their audience. As a result, such a definitional basis for the Asian Network cannot also be the basis for distinctiveness. The distinctiveness from the commercial offer must be based on content.
2. The fragmenting nature of Britain's Asian community, as different groups settle into British society at different paces, will increasingly question the notion of a homogenous Asian community with a body of shared values and interests. This may undermine, in the longer term, the current defining criterion of the station.

Format distinctiveness

The superior quality and greater editorial diversity of the Network justifies the Asian Network's presence in the market. The Asian Network is criticised by Sunrise Radio for its replication of commercial formats. It is true that the format of phone-in and talk which is prominent on the Asian Network is ostensibly similar to Sunrise. In the BBC's defence, it should be said that the quality and editorial control of these programmes is of a different order to Sunrise, particularly in the production of interviews and the depth of research. It may be fair for Sunrise to criticise the BBC for, in some senses, making a replica of Sunrise, but the replica is better than the original.

However, Sunrise can convincingly argue that, in format terms, the station does not appear as distinctive as it could be. While it is still in its infancy, it may be justifiable for the station to use largely familiar formats. The tone and image of the Network is self consciously fresh and young. Over time, it should grow the editorial confidence to innovate further.

Speech quality

On occasion, the quality of speech (whether the presentation or standard of journalism) was not as high as the audience expected of a national BBC network. This is a young station. 89% of its staff is Asian. The BBC accepts that the Asian Network will always have a relatively inexperienced team, as people will want to move on to more prominent BBC services. All this is to be applauded, and the commitment and seriousness of purpose of the more experienced editorial managers was clear in our visit to the Network. Eight of the 40 journalists come to London annually for training in other network programmes. However, this is a BBC national network and the audience's respect for it will depend on it being seen to have the same authority as the rest of the BBC's national services. The audience expects a greater consistency and authority.

There is some concern that this failure to reach a "national" BBC speech standard may be a function of its origins in local and regional radio. The BBC will need to make greater efforts to complete the transition from regional to national. A convincing argument has been made to us that, by continuing to base itself in Leicester, Birmingham and London, the station is finding it difficult to make the transition.

There may be some merit in considering bringing the three separate parts of the operation together, possibly in Birmingham. The Network could then move on from its original local radio identity, refresh its operations, become more innovative and develop more original programming.

7.3.4 Languages

There is some criticism that the network has a 'North Indian' focus, and under-serves the Tamils and Singhalese. The network's focus may derive from the fact that neither the Tamil nor the Singhalese community has a notable presence in Leicester where the station originated.

Speech measurement

This review would question how meaningful it is for the BBC to define distinctiveness simply by taking a stopwatch to sample weeks of output and adding up the minutes of speech and the minutes of music, regardless of content or context. Such a primitive measurement, used by commercial regulators, may be a necessary means of holding commercial radio to format commitments. The BBC should have higher ambitions than that. Far more valuable would be a quantifiable commitment to broad genres of programmes and subject areas, and a transparent and systematic set of qualitative judgements as to whether the BBC achieves them.

More than one critic has observed that speech seems to mean little more than phone-ins and news bulletins. Specifically, there are no built programmes, such as documentaries that address, in more meaningful ways, issues of relevance and concern to the audience.

The BBC argues that the Asian Network model is that of Five Live; and the idea of "built programmes" is inappropriate. This seems to be a flawed model. There is not sufficient Asian news and sport to justify a station in which "being live" needs to part of its DNA; the station is, anyway, built around music and more recently a drama.

It should widen the range of its current affairs programmes. The high quality phone-in shows may deliver the requirement to offer audience participation, but we note that 1Xtra has established an impressive record in short, relevant documentaries. The Asian Network should be as ambitious.

It may be beneficial to strengthen the links between BBC News and the Asian Network. This might include recruiting reporters with a particular brief for the station. Given the importance of the agenda, there is a strong case for a dedicated political correspondent at Westminster. This would be greatly welcomed by the Asian Network team.

7.3.5 Distinctiveness of the music

The play list and the process by which this is determined reflect the Network's remit to distinguish itself from the competition. However, among the peer reviewers there is some concern that it may be playing a little "safe". There is criticism of an over-reliance on Bollywood songs, the staple diet of Sunrise, and not sufficient sense of being ahead of the curve when it comes to the British Asian music scene.

One of the peer reviewers said that he found British Asian music being played on 1Xtra, Radio 1 and Club Asia before he heard it on the Asian Network. It is difficult to judge on such anecdotal evidence, and the music range is clearly far wider than on Sunrise. The Network has created its own album chart "The Mix", allowing DJs and artists to broadcast their choices. Jenny Abramsky credits the Asian Network for waking up Radio 1 to modern Asian music, but there was evidence that the cool station for younger Asian males was not the Asian Network but 1Xtra.[30]

7.3.6 Market impact

The audience research suggests that the launch of the Asian Network has brought additional editorial competition to the Asian market, and the result has brought a diversity of choice and evolution of format that is appreciated in particular by the younger Asian audience.

Although there must have been an impact on the audience for the commercial stations, in particular Sunrise, this has not prevented Sunrise's audience from growing while the Asian Network has been establishing itself.

The presence of the Asian Network does not appear to have deterred investment in radio aimed at Asian audiences: no fewer than six new satellite stations focused on the broad Asian market have launched since the Asian Network came on air in October 2002. It also has not stopped Panjab Radio from launching as a local service on the Bradford & Huddersfield multiplex in November 2002. Sunrise has also launched its music-oriented sister station Yarr on the Bradford multiplex.

Advertising

There may be a significant impact on commercial revenues from the BBC covering Asian melas and events. However, it seems very difficult to rule that the BBC should not cover an event that is of cultural interest solely because, by doing so, a commercial network cannot raise money from doing so. If one accepts the case for a BBC Asian Network, differentiated by its format, range of subject matter and speech content, then it must be free to cover what it thinks relevant to its listeners. Even so, the nature of the local and specialist Asian advertising market is one that merits special attention. One would expect the BBC to be especially rigorous in not mentioning sponsors names, or giving other potentially valuable commercial exposure, in its coverage.

Talent Costs/Presentation

This Review does not think Sunrise's accusation that the BBC has poached its presenters can be accepted at face value. The presenters who did originally work on Sunrise have justifiably moved around from station to station in the furtherance of their careers. One cannot regulate the movement of talent.

30 13% of 1Xtra's audience is Asian.

However, one should note the success of Sunrise as a launch pad for such talent. The issue points up the challenge for the BBC to use the Asian Network as a launch pad for its own original talent in future.

National coverage

The BBC justifiably argues that the AM transmission of the Asian Network should be retained to serve its older existing listeners until the take-up of digital radio sets is far further advanced. This simulcast is not an inefficient use of spectrum.

The relationship of the Asian Network to the rest of the BBC

Unlike the other BBC digital services, the Asian Network does not have a formal relationship with a more established network.[31] As the Asian Network is spread across three sites, Leicester, Birmingham and London, this may explain the less defined sense of its editorial remit. This is not a criticism of the Asian Network management. The music and drama teams were very sparky, and the news management was clearly responsible and reliable. But BBC Radio management might consider how better to integrate the Asian Network into the heart of BBC radio and music.

7.3.7 Conclusion

The BBC Asian Network has fulfilled its formal conditions. These are less detailed and demanding than for the other BBC digital stations, notably 1Xtra and 6 Music.

It has made a professional start. Now that it has established its presence with its national target audience, it is time to step up a gear in editorial ambition. It is at its best where it gives room for the creative instincts of its young bright producers to experiment with new ideas. It disappoints when it seems to echo the tried and tested commercial formulae. The result is a station where its origins as a regional and local station cling uncomfortably to its ambitions to be a national broadcaster. It needs to develop a more exciting and innovative editorial proposition that will form the basis for its distinctiveness.

7.3.8 Recommendations

- **The BBC Governors should redraft the Asian Network's remit to encourage greater editorial ambition. This should form the basis of the new service licence as described in *Building Public Value.* The BBC should review its formats and set objectives to enhance the**

station's innovation. It should accentuate the difference and diversity of its programmes and programme formats from those of its competitors.

- **The BBC should consider relocating the Asian Network's operations to a single site, possibly in Birmingham. This would help it to make the final transition from a regional station to a national one.**

- **The Asian Network should feature regular current affairs documentary programmes, similar to those on 1Xtra, tackling stories and issues affecting Britain's Asian communities.**

- **The Asian Network should be better integrated into BBC radio management structures in order to access support in its editorial development. This would involve developing further the training and development of the station's journalistic staff. The BBC should consider how to increase the role of BBC news in the journalism of the Asian Network.**

- **The Asian Network should take measurable steps to tackle the perceived inequality in the treatment of different Asian communities. It should review its range of language broadcasts to include at least one language from South India or Sri Lanka.**

- **In its implementation of *Building Public Value* the BBC, in reviewing the Asian Network's relationship to the commercial market, should seek to understand the very specific conditions of the Asian advertising market and frame its own objectives to minimise the commercial disadvantage to the Asian commercial stations.**

7.4 1Xtra: evidence

7.4.1 Summary of remit

1Xtra has been designed as a network to respond to the fact that young Black listeners were under-served by the BBC's current licence services. Though its identity is that of a music network, it also has a remit to provide news and documentary.

1Xtra offers a wide range of contemporary Black urban music with an emphasis on new UK artists, tracks and genres. 1Xtra started broadcasting on August 16th 2002 from its London HQ. Unlike the Asian Network, this station had no pre-history and started from scratch.

It is important to note that, though the motivation of the BBC in launching 1Xtra was to reach an under-served Black audience, the station itself was not devised solely in terms of that audience. 1Xtra's Conditions and Approvals are defined in primarily editorial, not demographic terms. It is a music station, playing "Black, urban" music for a young audience. It is not simply a station designed to maximise the number or proportion of Black listeners.

The budget was put at £5 million in the first year and £6 million in the second. In fact it has never spent its full budget, which has consequently been reduced.

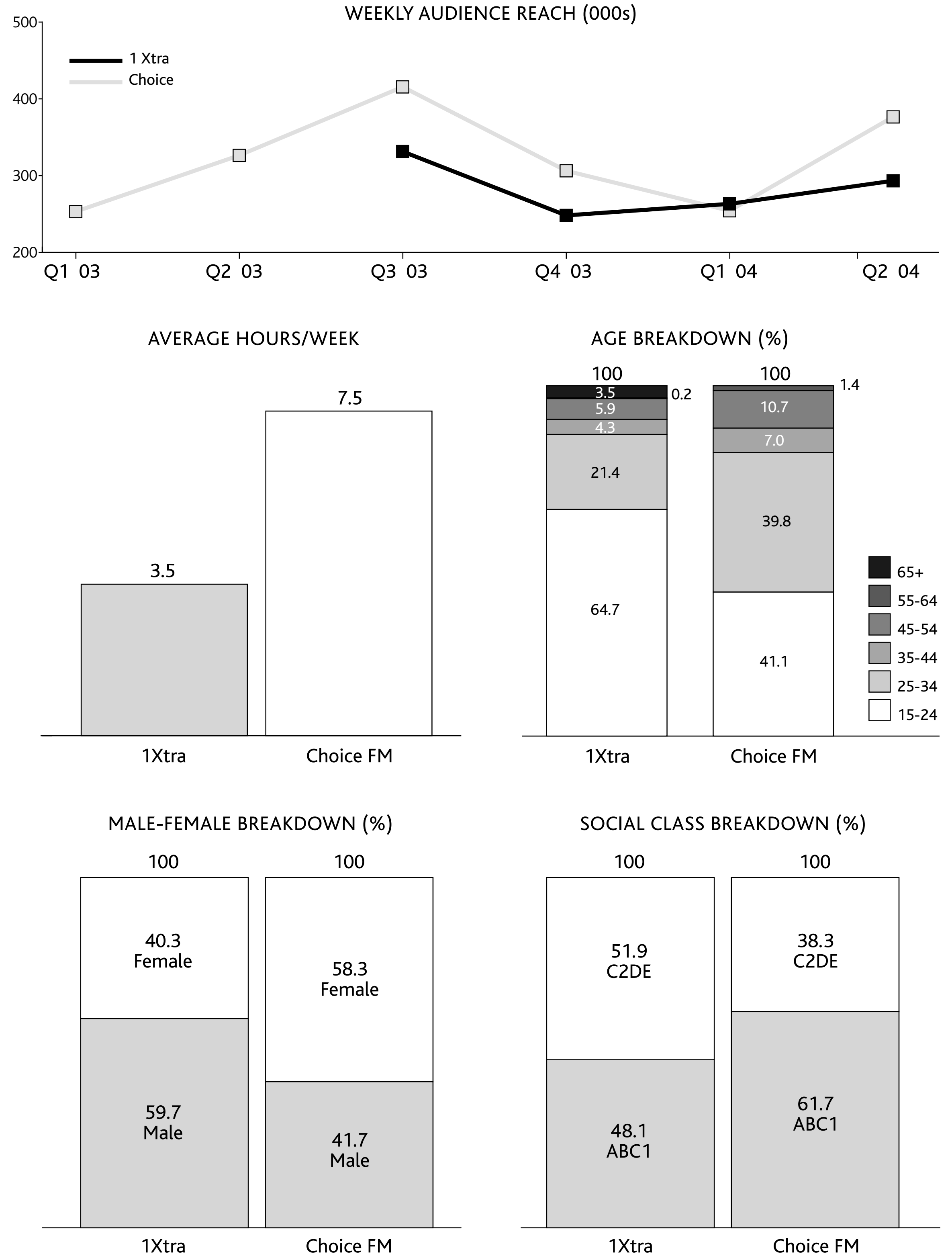
Proposals, Conditions and Approvals, and further commitments

BBC PROPOSALS	o 1Xtra will be a first for the UK radio market – a station dedicated to playing the very best in contemporary Black music to a young audience. Covering all the popular "urban" music genres such as Hip Hop, UK Garage and R'n'B, 1Xtra will provide a unique radio service primarily aimed at a young audience who are currently ill-served by both the BBC and the commercial sector. o Innovative and relevant speech will also be a mainstay of 1Xtra's approach and it will provide dedicated news coverage as well as in-depth features and discussion shows relating to issues facing this young audience. o Club-nights and live music are key drivers of the urban music scene and 1Xtra will actively support these areas, building on BBC Radio 1's continued involvement with the Notting Hill Carnival. Regular station-led events will also form a pivotal part of the output, bringing new artists to the audience and supporting the UK urban music industry. o 1Xtra will reflect, support and provide a much-needed outlet for the young fan of Black music and help the BBC provide a full and fair view of peoples and cultures, respecting its diverse audience.

DCMS CONDITIONS	○ The service must play contemporary "Black music" aimed at a young audience, covering all the popular "urban" music genres. ○ The service must maintain its distinctiveness by concentrating on new "Black music" and new artists within that genre by presenting a strong strand of live music; by not following trends in the mainstream top 40; and by maintaining around 20% speech content, including around 10% covering news, documentaries and social action programming. ○ As a national "Black music" station, this service must maintain its purpose of bringing together the diversity of "Black" music and culture across the UK.
BBC FURTHER COMMITMENTS	○ The service will actively support club nights and live music ○ The service will only be driven by the needs of the target audience ○ It will concentrate on new, British artists ○ It will offer a wider range of music during the daytime than commercial stations ○ The service will showcase the best in Black music talent in live performance ○ It will feature bespoke news bulletins ○ It will schedule topical discussion programmes every weeknight ○ It will schedule documentary programmes on music and non-music issues ○ The service will run several social action campaigns ○ It will draw on the BBC's radio production expertise to bring BBC production values to the target audience

Exhibit 8 – 1Xtra audience composition compared to Choice FM[1]

Q2 2004 (all figures adults 15+)



1XTRA SATISFACTION RATING: 8.1 (average BBC Radio 7.1)

[1]Choice FM figures for London analogue service only
Source: RAJAR, BBC

7.4.2 The BBC's view

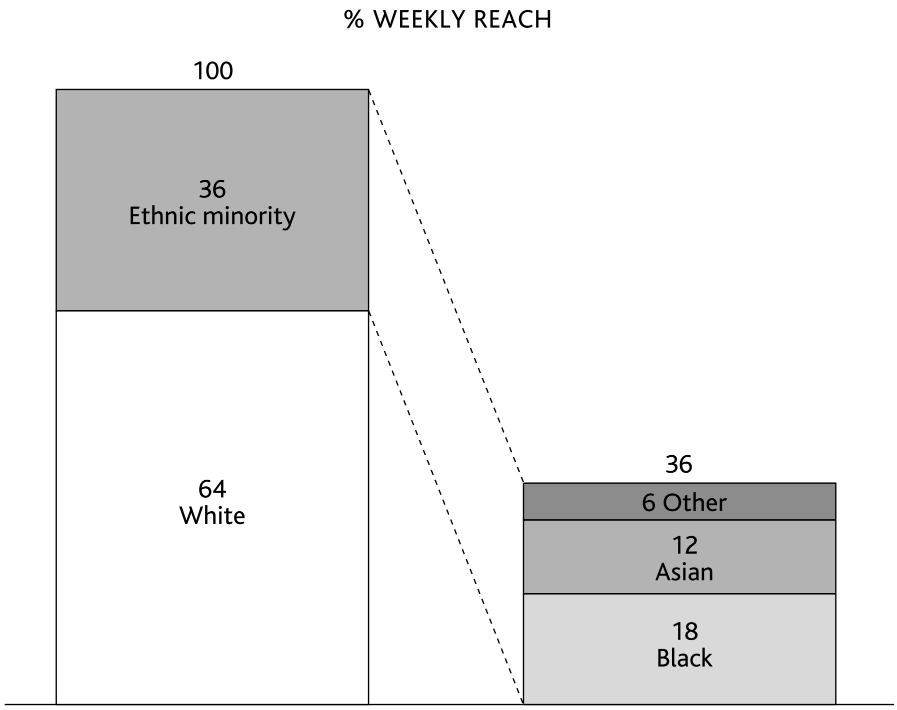
The BBC's verdict is clear: 1Xtra is a success.

- It has met the conditions asked of it by the Secretary of State, with the exception of its 10% target for news and current affairs, and changes have been implemented to secure this in future.

- It was nominated for five 2003 Sony Awards. The station won the Daily Music Show Award and the digital terrestrial Station of the Year.

- It reaches an audience it traditionally under-serves: some 36% of listeners are from ethnic minority backgrounds and 18% are Black.

Exhibit 9 – 1Xtra: audience by ethnic origin
Q1 2004



Source: RAJAR, BBC

Overall, the statistics marshalled by the BBC suggest an impressive discharge of its obligations: 53% of music was of UK origin, 70% was pre-release or less than one month old. Its speech content overshot its target of 20% to hit 26%, though its 10% target of news was undershot in its first year by 0.3%. The BBC found that 1Xtra had creditably made a number of documentaries on issues affecting young Black people and had run a number of effective social action campaigns.

There was less live music than originally planned as the network had found difficulty attracting high-profile international artists, though there are plans to find a way round this. The Governors' report pointed out concern at the quality of the speech output.

7.4.3 The competition's view

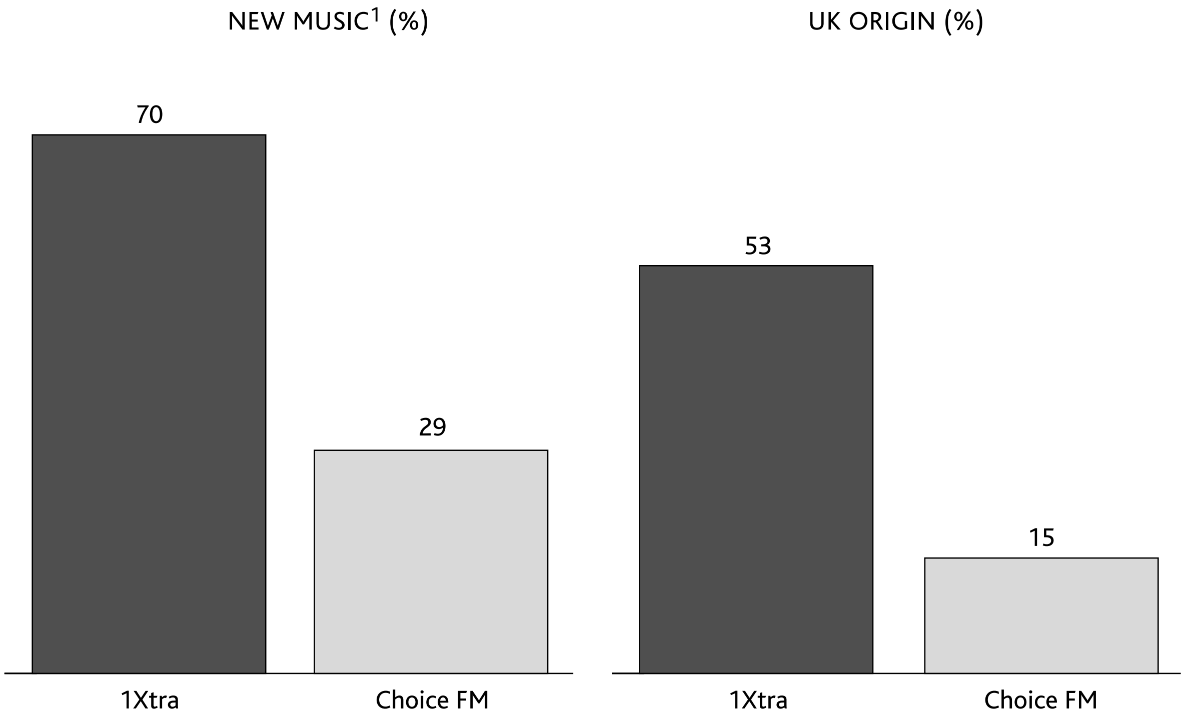
The most detailed critique of 1Xtra comes from the commercial companies that own the principal rival stations: Chrysalis, Capital and Emap.

They all hold the view that 1Xtra's Conditions allow it directly to overlap with Choice FM (Capital), Galaxy (Chrysalis) and Kiss (Emap). Capital and Chrysalis both argue that 1Xtra is targeted at the one segment of the Black community already served by commercial radio. Capital told us that they acquired Choice FM after Choice FM approached them because the station did not believe it could survive as an independent commercial station in a digital market, once 1Xtra had entered it.

However all admit that, in spite of the lack of constraints in the DCMS Conditions, 1Xtra is clearly distinctive in many ways from the commercial stations serving the same audience. Capital "applauds the fact 1Xtra plays specialist music during the day… [and]… 1Xtra's week-nightly 2 hour news and current affairs show, TX Unlimited". Chrysalis comments "Much of the current distinctiveness derives from the BBC's laudable commitment to go above and beyond the conditions imposed on the original service".

This distinctiveness comes out in the commercial stations' own analysis. 1Xtra's distinctiveness can be measured in direct comparisons.

Exhibit 10 – 1Xtra vs Choice FM: music content comparison



[1]Music either pre-release or less than 1 month old
Source: BBC

According to Chrysalis's research, a sample analysis showed a 37.4% overlap between 1Xtra's and Galaxy's choice of tracks. Chrysalis comment: "This is probably as high a level of overlap as would be considered desirable for 1Xtra to maintain its claim of distinctiveness."

Their broader criticism is that, however distinctive, 1Xtra does not extend choice to a wider audience than that served by their stations. They argue that 1Xtra should change its remit from a station playing Black "urban" music for a young audience to one that caters for a wider Black audience, from 15 to 54, with a greater focus on speech, and with a wider reach to older listeners who are served by no-one at present.

Capital point out that the DCMS Condition of 20% speech output on 1Xtra is less than Choice FM's format obligation to provide 30% of speech. Furthermore, 1Xtra broadcasts 15 hours of social action programming a year against Choice FM's broadcasting 250 hours.[32]

Emap make a different point, accepting the nature of 1Xtra, but arguing that it should evolve to reflect the changes in the digital market as it becomes more established: "When conditions were agreed for this

32 Although Choice FM has an admirable reputation for community involvement, it is erroneous to compare directly the BBC and Choice FM figures for "social action" programmes. Much of 1Xtra's TX programme could count as social action programming.

service, digital radio audiences were very modest, as such the case for damaging commercial operators was very weak. Emap believe that with new licences and more radio stations becoming available to consumers, the distinctive elements of this service should be further refined to appeal to an under served audience…More of an emphasis should be developed for live music, news, features and documentaries."

Emap argue that the conditions should be rewritten to set specific percentage targets for genres of music coverage,[33] and to state that speech content targets should be a floor, not a ceiling.

Chrysalis argue that the achievement of the BBC in exceeding the Conditions should be enshrined in a revised draft to "guard against the temptation for the BBC to modify its services to maximise its audience share".

7.4.4 Independent Assessment: Peer Reviews

The purpose of the peer reviews and audience research is to gain a critical perspective on how the network is being received by its target audience. We commissioned two peer reviews for 1Xtra. This is a summary of the findings.[34]

Positive Points

- 1Xtra has encouraged the take-up of digital radio, played music not normally heard on other stations and has been active in promoting British talent in urban music.
- At its launch there was a real buzz – everyone in the Black media wanted to get a job on it.
- The station has a combination of streetwise savvyness and BBC editorial standard which is very appealing. The speech and music content is just about right.
- Crucially it is the only (legal) radio station which plays British Black music.
- 1Xtra's roots lie in pirate stations but, although there were fears that 1Xtra could drive out the pirate radio stations, this not the case; they are both capable of existing in the same ecosystem.

33 In their submission, Chrysalis suggest that: "90% of the music output should be contemporary Black music. Less than 10% should be from the mainstream Top 40."
34 See Appendix 10.5 for full reports.

- The peer reviews emphasise the multicultural dimension to 1Xtra. Some of the DJs are White or Asian (the Panjabi Hit Squad) or Black and Middle Eastern (The Heartless Crew) – showing that in many cities multiracial groups take on Black culture and sensibilities. In many cities devoid of a large Black population the listeners are White (Femme Fatale & Benji B are both White DJs and are passionate about the music). Another key strength of 1Xtra is the expertise of the DJs.
- They welcome the news and documentaries, which are of good quality. But squashing the news and current affairs programme into a two-hour slot, TX Unlimited, is a little disingenuous.

Criticisms

- 1Xtra needs to show a greater distinctiveness from commercial radio stations by playing more underground music. The spoken word content should be at a higher level, especially given the financial clout of the station.
- A casual listener to 1Xtra during the day would hear Top Ten American R 'n' B artists such as Missy Elliot and Nelly – who can be heard on the commercial stations such as Choice FM and Galaxy and on Radio 1.
- The music news can be criticised a little for being late, even though the content is well put together with a mixture of gossip and music-related current affairs.
- There must be more clarity in identifying whom the service is for. If it is there for urban music listeners, the commissioning editors would be mistaken in assuming that its listeners are Black as opposed to people who simply like the music. If it is meant for Black listeners it will need to widen its editorial and music content.
- The greatest criticism is of standards: one reviewer has noticed some poor live interviews, links and news segments. There must be an increase in the quality of the spoken word programmes and journalism.

7.4.5 Independent assessment – audience research

Focus group research on the station was carried out among Afro-Caribbeans aged between 16 and 25, in two two-hour group discussions in London and Birmingham. The report's summary is as follows:

1Xtra is seen to compete with "legal" Black stations, pirate stations and Radio 1's Westwood show. It has established real credibility with its target audience. It is listened to on the internet and on Freeview/ DSat. There was little evidence of it being listened to on DAB.

When potential listeners were interviewed, they were extremely positive. It overturned their expectations of a BBC service. It was noted both for its professional quality and for the fact it "felt like a Black station, just for people like us".

However, it is not seen as differentiated from Choice FM. When pushed, the audience contrast Choice FM's established position in the market with the sense of 1Xtra being new music from new talent, for the younger listener. However, they concluded: "They'd be in competition with each other. If they were in a room together, they would kick each other out." "Choice would be a fun, Black person, loud, someone who got on with everyone. 1Xtra would be the same type. Choice is just a bit older, more adult".

1Xtra is listened to for its music. Its speech segments are not really noticed. This may explain the lack of awareness of how it differs from Choice FM. Though the speech segments are seen as good, they are not seen as important and an increase in speech would not be welcomed.

However, there is some evidence that social action programming does fit with audience expectations and provides added value. It fits in with its credibility as a leading-edge station reflecting Black culture.

7.5 1Xtra: assessment and recommendations

7.5.1 Performance against Conditions and Approvals

The BBC has met all but one of the formal conditions set out by the Secretary of State. Despite initially narrowly missing its 10% target for news and current affairs, it has exceeded its target for speech. Furthermore, through the delivery of documentaries and features on what is essentially a music-focused station, it has marked a clear point of distinction from its commercial competitors. However, the success of the service raises a separate question as to what the Secretary of State meant by "diversity" in her Conditions. This problem is explored below.

1Xtra plays distinctive and new "urban" music, and has fast won a critical reputation. It has twice won a Sony Gold Award. It has provided extensive coverage of live music and events, having broadcast 250 hours from 68 different live events throughout the year, and has ambitions to create its own events once it has a higher profile within its target audience.

7.5.2 Speech

The speech segments are of subsidiary interest to the listeners. TX, the flagship programme, is the major contribution at two hours each evening. 1Xtra has a lower target for the percentage of speech than does its commercial rival, Choice FM. However, we know that the audience is resistant to an increase in the level of speech. They do respect its quality and its agenda, particularly the social action programming. Choice FM's commitment to social action programming is a challenge to 1Xtra, one that the BBC should meet.

The BBC Governors and our peer reviewers expressed concern regarding the quality and scheduling of the speech output. Although there may be some room for improvement, it should keep its distinctive flavour that makes it convincing to its target audience.

The station's two-hour current affairs and social action slot, TX Unlimited, is a clear point of public service distinction, but it concentrates the speech in one section of the day. Rather than crudely increasing the speech percentage target, the BBC should carefully define how it might improve the salience and the variety of its speech content across the network as a whole and how it might enlarge the impact of its successful social action agenda.

7.5.3 Meeting the needs of its target audience

1Xtra has successfully established credibility in a community that initially had little connection with the BBC. It has also well served the needs of its target audience, defined as a young audience for "all popular urban music genres". However, it is important to distinguish its remit from that of a station seeking to serve the diversity of Black culture. It plays urban music, an increasingly mainstream cultural phenomenon; it does not set out to cover the wider range Black culture. For instance it does not specifically serve the tastes of the African community, or regard world music as a core part of its remit.

7.5.4 Presentation

There is widespread praise for the quality of the DJs on 1Xtra. While some have been poached by the BBC from pirate stations, this can equally be seen as the BBC tapping into the talent within the community.

It is also clear that the DJs command respect for their involvement and enthusiasm for the music they play and their manifest knowledge of the scene: not only do they actively engage in the world they talk about, but shape and influence it as well. This gives them an authority that is much appreciated and recognised.

7.5.5 Market Impact

Our discussions with the commercial sector suggest that 1Xtra has already had a significant impact on the market, since its launch was one of the reasons given for the decision of Choice FM, 1Xtra's closest commercial rival, to give up its independence and sell itself to Capital in 2004. Capital has persevered with Choice FM, and audience figures suggest that although Choice FM's audience has been affected by the launch of 1Xtra, they now appear to be recovering. However, there has not been significant investment in the "urban" market since 1Xtra's debut (although 1Xtra has not halted Emap's rollout of the well established and more mainstream Kiss brand, which has launched on 10 new regional and local multiplexes since mid 2002).

1Xtra has clearly made the market more competitive: it has thrown down an editorial challenge to the commercial stations, particularly Choice FM. It has also made a relatively small market niche substantially less attractive to commercial investment. If 1Xtra had not appeared, would the commercial sector on its own have launched an additional 24-hour, national channel focused on this segment? Almost certainly not. Would it have invested to the same extent in journalistic skill aimed at this market? Definitely not: the BBC's resources here far outweigh what the commercial sector can bring to bear. Would the commercial sector have backed British musical talent to the same extent? Probably not. Would the commercial sector have shown greater interest and invested more in this segment? Quite probably, although at nowhere near the same level as the BBC.

The focus group research concluded that the target audience appreciated 1Xtra, but struggled to differentiate it editorially from commercial rivals because its main interest lay in music rather than speech content. If this is true, the BBC's main arguments to justify 1Xtra's market impact lie in its contribution to the creative infrastructure (its support for British urban music and journalistic talent). If it is to justify itself fully in the terms of the BBC's own Public Value Test, it has to do more to underscore its distinctiveness and establish its genuine differences in the eyes of its audience, and distinguish itself editorially in ways the listeners appreciate. Otherwise what now appears a justifiable case for its market impact will begin to look less convincing.

7.5.6 Conclusions

1Xtra has differentiated itself from the competition by the targets it has set itself, notably in uncovering new British talent and playing such music in prominent slots. However, its remit is not designed to maximise the range of Black listeners in the UK, rather it is focused on a modern cultural phenomenon, urban music, which is fast becoming mainstream. It has successfully established a reputation for the BBC in a culture where it had little before. It therefore should not alter its remit, and risk diluting that reputation, simply to seek a broader appeal with other minority Black audiences. The great achievement of 1Xtra is to establish a talent base and idiom that is credible to a section of licence fee payers who do not otherwise easily identify with the BBC. 1Xtra could point to valuable lessons to the rest of the BBC.

However, it seems reasonable to accept the commercial competitors' suggestion that 1Xtra's current measures of differentiation should be incorporated as formal targets in its service licence.

7.5.7 Recommendations

- **The BBC should set targets for the percentage of British acts being played on 1Xtra in order to maintain its distinctiveness from the commercial stations. It should institute similar targets for new and UK music played in primetime slots. These figures should be based on the station's performance over the past two years.**

- **Rather than increase its percentage of speech programming, 1Xtra should consider new formats to allow for speech to find its way into the schedule at different times of the day and week. It should increase the amount, and the impact of, its social action programming.**

- **The BBC should encourage staff on 1Xtra to find their way into other areas of the BBC to help improve the BBC's own multicultural make-up.**

7.6 Lessons for targeting ethnic minority audiences

The Asian Network and 1Xtra have developed on differing principles. Both have their own difficulties. Defining a station by its audience, as the Asian Network has done, has consequences for the clarity of its editorial proposition. Defining itself by content, as 1Xtra has done, has consequences for meeting one of the key conditions set by the Secretary of State, namely "bringing together the diversity of 'Black' music and culture across the UK".

This review argues that the Asian Network should not solely define its purpose by the audience that it serves. As it completes its transition from a local to a network station, it should leave behind the limitations of a local radio format and seek a clear definition through editorial ambition. As it matures, the Asian Network should develop a compelling proposition that uses as its raw material the rich diversity of **British** Asian-ness. Though for reasons of universality the service should offer national language services, they will never be a central part of the proposition.

However, this will in turn produce a gap, which should be met by BBC local radio, which should continue to offer local coverage and language services targeted at their local Asian communities.[35]

The issue for 1Xtra, and the BBC's responsibility to serve the diversity of Britain's Black communities, is problematic in a different way. 1Xtra's current proposition, while making for an excellent radio station, fails to meet the condition of "bringing together the diversity of 'Black' music and culture across the UK". There are two factors operating here: first, the exclusion of large numbers of the Afro-Caribbean community not interested in "urban music" – for example, the elderly. Second, the exclusion of Black cultures of African origin (e.g. Somali, Nigerian, Ghanaian.) However, it is clear that if 1Xtra were to adjust its output to include these groups, it would lose its brand identity, which is that of an inclusive urban youth station serving a genuinely multicultural audience.

The BBC's justification for launching 1Xtra was to reach under-served audiences. In this context it is surely an issue that 1Xtra's audience is only 18% Black and 13% Asian. Latest demographic statistics show that the Afro-Caribbean population is now outnumbered by the other Black groups, over 80% of whom are Africans.

The BBC needs to develop a strategy for meeting the different needs of these Black cultures, which continue to be under-served. It may be that this is an opportunity for the sort of partnerships that the BBC now says it wishes to promote. BBC news and production expertise, working with commercial ventures on local digital multiplexes, could serve these more fragmented audience groups which otherwise will not be served.

7.6.1 Recommendation

- **The BBC should further consider how to meet the needs of those Black audiences, such as elderly Afro-Caribbean and African communities, not served by 1Xtra's remit.**

35 As a result of immigration patterns from different Asian groups there are heavy concentrations of particular communities in specific areas, such as the Bangladeshis in London's East End or the Sikhs in Southall. These concentrations naturally fall within the ambit of local radio stations and are, in some cases, the majority of the population. Local radio stations need to be alert to the rapidly changing demographics of their audience and their output should reflect the specificities of the Asian community in their footprint.

7.7 6 Music: evidence

7.7.1 Summary of remit

6 Music was designed to make better use of the BBC Radio archive and went on air on March 11th 2002.

6 Music has a very specific remit: it puts into context popular music from the past 30 years. It plays a mix of contemporary and archive music. It focuses on providing a knowledgeable and individual critique of a broad range of artists, regardless of their chart success.

Its editorial focus placed it in potentially the most commercial and competitive part of the music market. Accordingly, it was given a deliberate remit to distance itself from Radio 2 and the popular commercial mainstream. In addition, it justifies its considerable budget (£4 million) with investment in a distinctive news and music news service and a range of archive documentaries, which are a prominent part of its schedule. It has also invested in a remarkable range of on-air presenter talent.

The audience targeted is 25 to 44 "music lovers", falling between the core demographic audiences of Radio 1 (15-24) and Radio 2 (35+). However, it defines its audience more by attitude than by age.

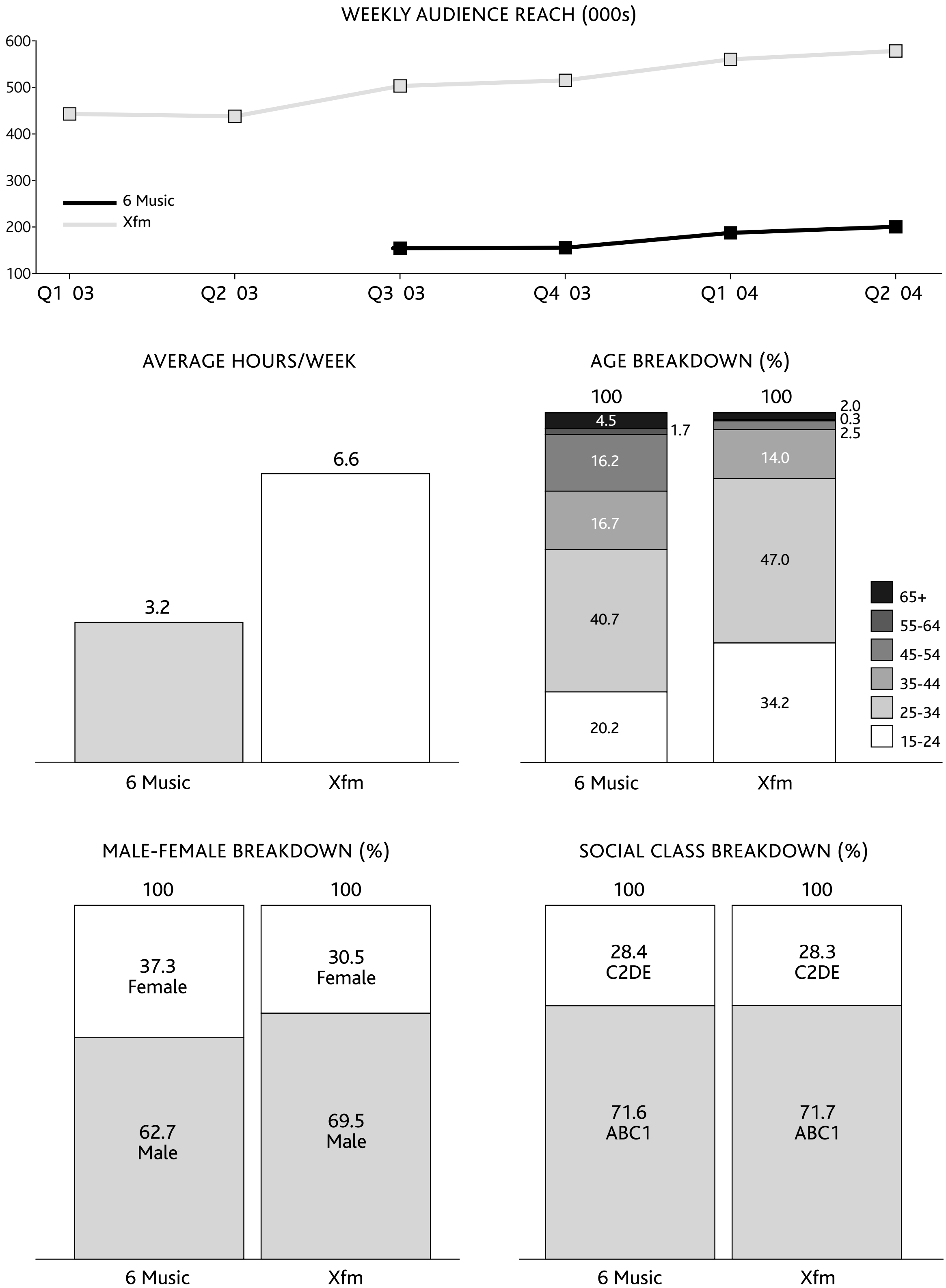
Proposals, conditions and additional commitments

BBC PROPOSALS	o 6 Music will be targeted specifically at people who are interested in music and who want to learn more. It will offer the best music not just that dictated by the charts. The breadth of work of individual artists will be reflected, mapping their development and the creation of popular music culture. The Network will offer a wider selection of music than commercial stations can. o The station will gather new recordings to augment those already stored in the BBC archive, making this material available for the first time, free at the point of use. It will allow the public to hear new artists who will be the enduring icons of the future, particularly those who are not enjoying commercial support demonstrating its independence from commercial interests. o Speech output, through news, features and documentaries, will be based on developing an understanding of the music and its context, or reflecting the interdependence of musical and social trends.

DCMS CONDITIONS	o The service will offer popular music from the 1970s to 1990s. o In particular, the service must concentrate on major artists and material which do not receive much radio support elsewhere in the market place. o The service must have a strong strand of live music, as well as speech output through news, features and documentaries.
FURTHER BBC COMMITMENTS	o Put music into context through a broad repertoire of music playout including popular music from the 1970s to 1990s, together with documentary features, authoritative presenters, and a dedicated music news service unmatched on BBC Radio. o Broadcast exclusive moments from the BBC sessions archive. o Support new music from artists not featured on mainstream radio, concentrating on UK acts. o Cover major music festivals. o Record a large number of new sessions to be carried in all shows, reflecting the broadest range of musical output.

Exhibit 11 – 6 Music audience composition compared to Xfm[1]

Q2 2004 (all figures adults 15+)



6 MUSIC SATISFACTION RATING: 7.8 (average BBC Radio 7.1)

[1]Xfm figures for London analogue service only

Source: RAJAR, BBC

7.7.2 The BBC's account of its delivery

The BBC has a very clear view of 6 Music's purpose, which it describes as "drawing the links between past and present, and using the BBC archive to bring perspective and context to popular music".

The original conditions laid down by the Secretary of State stipulated that the station should play music from the 1970s to the 1990s. The BBC calculates that nearly 50% of the music played has been from the 1970s and 1990s.

Its range of music reflects its remit to play music that is not covered by the commercial market. The BBC has calculated:

Only 27% of the tracks played in its daytime programmes were ever in the Top 40.

70% of live sessions recorded by 6 Music have been with artists not heard on other BBC networks (though the competition claim they have been heard on commercial radio).

33% of the play list of daytime programmes are from new artists that the BBC judge are not enjoying commercial support.

In addition to a dedicated station news team producing hourly bulletins of news and music news, 6 Music has put its speech services at the heart of the network. There have been 48 documentaries commissioned in 2003. In addition, 10 archive documentaries are played each week. 4,000 sound clips have been extracted from archive documentaries to be fed into existing programming.

6 Music has used its interactive relationship with online listeners to build a critical context around the work of the iconic artists whose new music it plays. 6 Music has also covered a wide range of festivals across the country.

6 Music's next step is to heighten the level of interactivity, develop use of the archive and strengthen the relationship with its audience. Initiatives will include high profile outside broadcasts and events.

7.7.3 The view of the competition

Critical acclaim

There is a high level of critical admiration for 6 Music. It was nominated for Station of the Year in the digital terrestrial category in the Sony Radio Awards. Its line-up of presenters, including Phil Jupitus, Steve Lamacq, Bruce Dickinson, Jayne Middlemiss and Tom Robinson, is unrivalled for reputation. It is a station that has gained rapid respect in the music press and among leading British artists for its knowledge and authority.

6 Music has also gained the respect of its commercial competitors.

The principal submissions were from Chrysalis and Capital Radio, who run two of 6 Music's direct competitors: The Arrow and Xfm.

Chrysalis Radio believed that the BBC's original proposals were "severely lacking in originality and innovation" and "the definitions for each service closely resembled the definitions for commercial radio stations that already existed". It stated: "6 Music's proposal to provide older popular music closely resembled the formats of existing commercial 'gold' stations, as well as classic rock services such as The Arrow and Planet Rock."

However Chrysalis's concerns have been to a large extent allayed by the BBC's performance: "We acknowledge that considerable effort has been made by the BBC to make its music stations distinctive from their nearest commercial equivalents." Monitoring 6 Music's output against the Chrysalis station The Arrow, they found an overlap in tracks of just 7.5%.

Capital Radio has a more detailed critique. Its chief concern is 6 Music's overlap with Capital's specialist music station, Xfm, which is the nearest commercial equivalent. Xfm was first broadcast on FM in London. Through transmission on a number of regional multiplexes, it now reaches 63% of the country and counts as a quasi-national commercial network.

Capital admits that 6 Music is distinctive. Despite "many similarities", it concludes that: "6 Music does have a wider play list and a more album-based music policy than Xfm. The current music policy is quite distinctive and eclectic, and, as such, generally, does not replicate Xfm directly."

However, it argues: "6 Music loses its distinctiveness when it crosses into the territory of showcasing new music [...] This is firmly Xfm's territory and 6 Music should be guided into retaining its older focus by reducing and redefining its new music output." Capital also disputes 6 Music's claims to have discovered a number of new artists. Capital argues that many of these new bands were first brought to prominence on Xfm and provides much detail to support its claim. Capital argues that 6 Music should focus more clearly on delivering the part of its remit that highlights music from the 1970s to the 1990s. It points out that 45% of the tracks on 6 Music are from 2000 to 2004.

Capital also makes much of a shift in wording from the BBC's original proposal to the DCMS where it promised to feature "enduring icons of the future, particularly those who are not enjoying **commercial** support". In the BBC commitments published at the time of the DCMS Approval, it offers instead to "support new music from artists not featured consistently on **mainstream** radio, concentrating on new acts". Capital argues that the change of description from "commercial" to "mainstream" was designed to give the BBC the freedom to compete directly on Xfm's territory. (The BBC explains the change of wording as designed to further differentiate 6 Music from the "mainstream" Radios 1 and 2.)

Capital states that "without a firmer programme promise, BBC 6 could become more commercial, less speech-based and competing much more head on with Xfm."

Chrysalis similarly argues: "That the BBC's services are distinctive now is not a guarantee that they remain so. Much of the current distinctiveness derives from the BBC's laudable commitment to go "above and beyond" the conditions imposed on the digital services when they were approved [...] The conditions imposed by The Secretary of State when she approved the new services currently leave considerable leeway for the BBC to move closer to commercial rivals." Chrysalis concludes: "All these aspects of the two services could be enshrined in revised conditions which could ensure the continuing commitment of BBC digital radio to its core public service principles well into the future."

Both commercial broadcasters believe the DCMS Conditions should be refined to set clear targets for the proportion of contemporary and archive music. It should identify its audience as older listeners. There should be quantifiable targets for speech content. Capital also compares the detail of the Xfm licence commitments issued under the Radio Authority with the less stringent requirements of the BBC's commitments.

7.8 6 Music: assessment and recommendations

7.8.1 Conditions and Approvals

The undoubted success of 6 Music is a result of conscious editorial differentiation. The producers recognise the real danger of replicating what is already there in a crowded market. On meeting the 6 Music team, one feels that this is the service that most defines itself by its deliberate distinctiveness.

6 Music represents the best of the BBC's creative enthusiasm. It is critically led; it broadcasts to an audience with which it has an assured sense of shared knowledge and critical enthusiasm. Its standing in relation to its audience is similar to Radio 3's relationship to its listeners. The additional dimension of online has pioneered an intimate connection between radio and the listener. This is a station that treats its listeners like members of a club.

However, its commercial critics are right when they point to the fact that the DCMS Conditions suggested that 6 Music was intended to be more of an archive station than it has in fact turned out to be. The 6 Music team itself admits that as the station has developed, so its original description does not quite match its achievement.

7.8.2 Music

According to its remit, the station has as its primary definition that it plays music from the 1970s to 1990s. Yet this accounts for only half its music output. 45% of its music is from 2000 to 2004.

6 Music does have a more contemporary focus than was originally anticipated. Commercial fears that it would compete with the Gold stations have been allayed. It mixes contemporary and archive for deliberate critical effect. It is a core part of its remit to analyse the influence of the past on the present and the cross-generational connections between artists and bands.

7.8.3 Speech

The speech content of 6 Music is especially successful and is a key definition of its distinctiveness. It has integrated documentary, speech and music with remarkable success. Each seems an intrinsic part of the station. The news and music news feel at ease with the rest of the schedule.

7.8.4 Market Impact

6 Music was the BBC digital radio service that potentially could have had the most overlap with the music played on commercial radio. Its appeal to the 25 to 44 demographic places it in the heart of the most valuable commercial audience. The success of Radio 2 in recent years has made the BBC's strategy in this market extremely contentious. Playing more contemporary music has brought 6 Music into more direct competition with Xfm than was originally envisaged, although 6 Music is targeted at an older demographic (25 to 45 rather than 15 to 34).

However, 6 Music's active pursuit of editorial distinctiveness and eclecticism has limited its impact on the commercial sector. Its audiences have remained relatively small in comparison with Xfm, and its launch has not deterred Xfm's parent, Capital Radio, from significant investment in an aggressive rollout strategy on DAB: Xfm is now on 18 regional and local multiplexes.

The commercial sector's chief concern about 6 Music is its apprehension that the station could shift editorial direction to increase its audience and bring it into more direct competition with its commercial counterparts. The point is not that Xfm – or any other commercial station – should be protected from competition, it is that it should not face direct editorial competition from a publicly funded station whose budgets are significantly greater because it does not face the same requirement to deliver a commercial return. It is the most vivid illustration of the challenge the BBC faces in demonstrating that it can exercise its prerogative to improve and develop its services while ensuring they retain the distinctiveness from commercial services which justifies their impact on the market. A clearer statement of where 6 Music delivers that distinctiveness, and which takes into account the way the station's play list has become more current, would resolve the incoherence.

At present, however, 6 Music's market impact is limited and uncontentious.

7.8.5 Conclusion

There may be some criticism that the BBC is spending a large amount of money relative to commercial radio on a station that attracts a relatively small number of listeners. This should not be a concern in any way so long as 6 Music continues to produce a distinctive, modern public service of such quality. 6 Music has defined its role on air with great success.

However, it is important that there is clear predictability in the remit and that the DCMS Conditions represent the identity of 6 Music more accurately than they do at present. The commercial competition can plan effective services of their own once they know for sure what 6 Music will be broadcasting. Similarly, any lessening of the speech content would diminish 6 Music's quality. Its importance should be enshrined more clearly in the Conditions and Approvals.

The commendable brief of 6 Music needs now to be reflected more transparently in its formal Conditions and Approvals. Its remit needs to be defined by quantitative measures so that, were the BBC to seek to increase ratings by moving more to the mainstream, this shift of policy could be identified.

7.8.6 Recommendations

- **The BBC Governors should redraft a more detailed service remit that accurately describes the character of the station. This should form the basis of the new service licence as described in *Building Public Value*. It must be clearer about the balance between contemporary and archive music to be played. It should define this quantitatively and the figures should be based on the station's performance in the first two years of its transmission.**
- **There should be a clearer definition of the different speech genres which 6 Music broadcasts, and the number of hours planned per week.**

7.9 BBC 7: evidence

7.9.1 Summary of remit

BBC 7 is a speech network complementing Radio 4. It makes extensive use of the BBC's much loved speech archive, which is otherwise not heard. It broadcasts comedy, drama and readings, largely from archive but with some original production. The archive comes from Radio 2 and the old Radio 5 as well as Radio 4. Some of its classic material dates back nearly 50 years.

BBC 7 also offers a space to try out new writers and talent, in both drama and comedy. Its readings concentrate on genres that do not find an outlet on Radio 4, notably science fiction and horror. Most of the readings are originally produced. BBC 7 has no news and current affairs programming and its presentation links are all recorded.

BBC 7 also allowed the BBC to restore radio programming for children. This would introduce a younger generation to the concept of speech radio. There are four hours a day (one of which is a repeat) of children's speech programming of the kind that has been unavailable in the past decade.

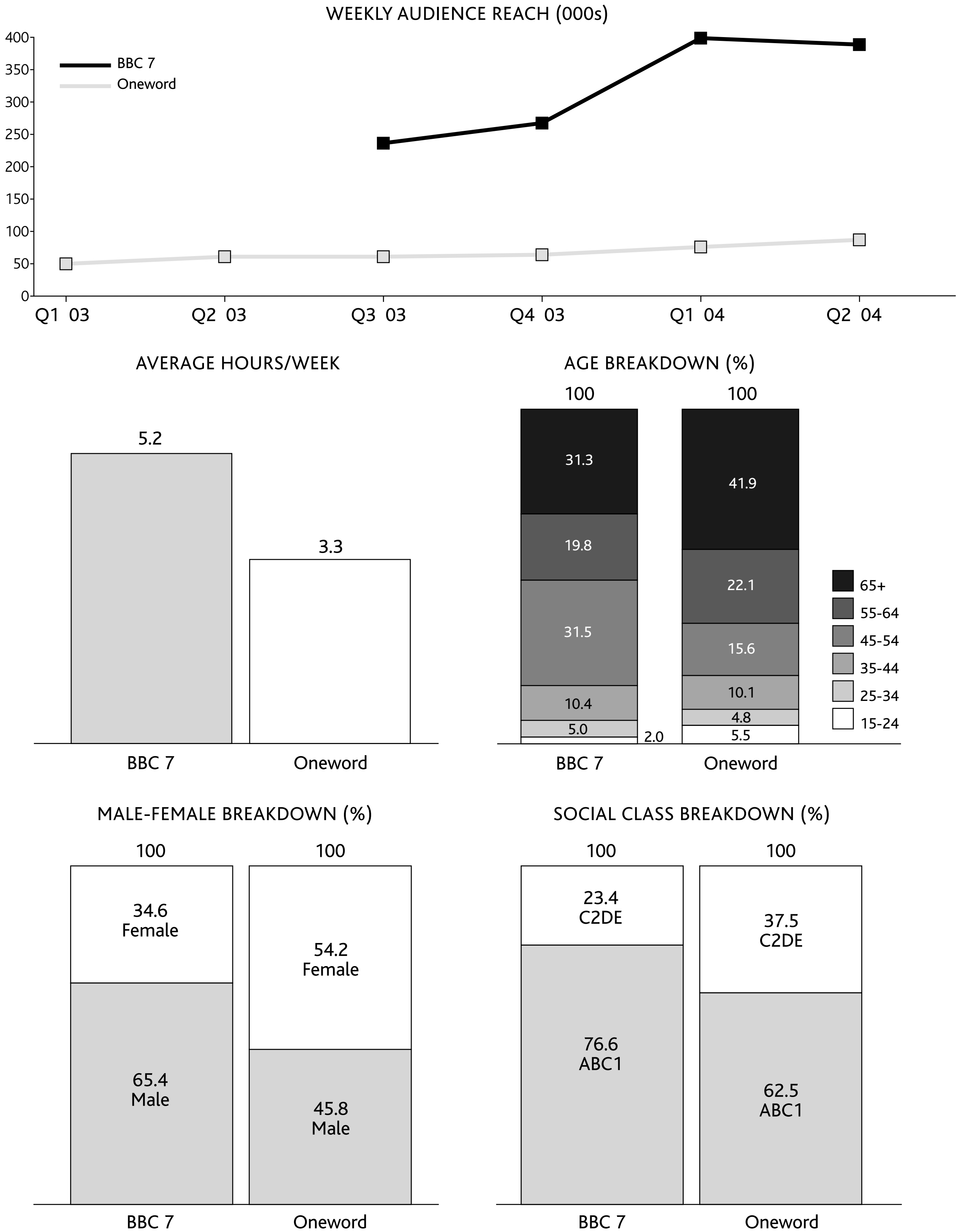
BBC 7 was the last of the BBC services to launch due to the unexpected complications of archive clearance. It was launched on December 15th 2002. It has been the digital radio service which has been most cited as the reason for people purchasing a DAB set.

It has also been the most controversial of the BBC digital networks in the commercial radio sector because of its competitive impact on one of the most distinctive of the national commercial digital stations, Oneword.

BBC PROPOSALS	o The Network will take the best BBC Radio speech programmes, both contemporary and archive, and offer comedy, drama, stories and features with unabridged readings from the world's great literature. o The Network will be the home of children's speech radio on digital with parts of the schedule regularly devoted to stories and feature programmes for children, broadcast without advertisements or commercial pressures. o Freedom from commercial pressures will enable the Network to serve the licence payer with a unique high quality speech based service.
DCMS CONDITIONS	o The service must offer BBC speech programmes, both contemporary and archive, covering comedy, drama, stories, features and unabridged readings. Parts of the schedule will be devoted to programmes for children. o This service must not be developed at the expense of programming on Radio 4.
BBC FURTHER COMMITMENTS	o Original drama and readings for children o A daily children's magazine programme o Unabridged readings o Poetry forums for interactive audiences o Programming commissioned from a new writing department. o Complementary scheduling with Radio 4 o Airtime for new cutting edge comedy o BBC 7 will differ from Oneword in many ways

Exhibit 12 – BBC 7 audience composition compared to Oneword

Q2 2004 (all figures adults 15+)



BBC 7 SATISFACTION RATING: 7.8 (average BBC Radio 7.1)

Source: RAJAR, BBC

7.9.2 The BBC's account of its performance

BBC 7 has been in one sense the most obvious of the Corporation's new offerings. It has allowed the repeat transmission of some of the most loved brands in British broadcasting and their introduction to a new generation of listeners.

The BBC is proud of the very different tone of voice developed on the network. It won the Sony Gold Award for Station Sound in its first year on air. BBC 7's idiom is consciously differentiated from Radio 4. The BBC now stresses the deliberate younger appeal of the network and its role in introducing a younger audience to speech radio.

Its schedule is also distinctive from Radio 4, not just in complementary scheduling but in zoning its content to make it easier for listeners to navigate the network.

The BBC has invested more in BBC 7 as time has gone on. In the first instance, it needed more resources than anticipated to clear the archive for transmission. It has also been given additional money, transferred in part from 1Xtra, to fund original comedy. Its original content budget was £4.4 million. It now stands at £5 million.

BBC 7 has been more ambitious than its formal remit, broadcasting live from festivals. In response to popular request, it has extended its hours of broadcasting to a 24-hour network.

Its children's programming has created not just a new production centre for children's radio speech programmes, reinventing a skill that had ceased to exist, but has built a converged media experience for children where online is integral to the radio.

BBC 7 has also licensed some of the best of overseas speech radio from North America, notably Garrison Keillor's show from Minnesota Public Radio.

7.9.3 The view of the competition

In addition to submissions from commercial radio, there has been reaction from the main bodies representing writers and their agents.[36] These representatives of talent have welcomed BBC 7, and the network has successfully negotiated contracts with them. In the longer term, however, as BBC 7 grows

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36 The Authors' Association, the Personnel Managers Association, the Publishers' Association, The Society of Authors and The Writers Guild. See public consultation responses at Appendix 10.7.

audience, upward pressure from the talent agencies for greater rewards will put pressure on the station's budget. BBC 7 is undoubtedly a potentially important part of the BBC's role as cultural patron of new writing talent.

BBC 7 has also been welcomed by The Viewers' and Listeners' Association. However, commercial radio has been more critical of BBC 7 than of any of the other digital radio services.

7.9.4 Oneword

The charge is that the BBC, in launching BBC 7, deliberately undermined any opportunity for a similar commercial speech network getting off the ground. The history of Oneword has focused the debate about the relationship in radio between the BBC's definition of public value and its potential market impact. It is examined in some detail here, as it has significance for the wider BBC Charter Review debate.

The case against the BBC

Oneword is one of the original commercial national digital services broadcast on the Digital One multiplex. It was set up in 1999 and started to broadcast at the beginning of 2000. Its major shareholders were UBC Media Group, GMG and Chivers Press. It has twice won a Sony Gold Award as Digital Station of the Year.

Oneword was designed to be a speech network on commercial radio that would do for the spoken word what Classic FM had done with music. Its repertoire was primarily the "talking books", which Chivers published and which were licensed for radio. It also included some acquired American comedy and some drama and made literary discussion programmes. Oneword was based on an innovative rights deal that made the material affordable for radio. The costs of the network – £950,000 a year of which £500,000 was the cost of the multiplex – were borne by the shareholders even though no significant revenue was expected for three years.

In July 2001, two months before the BBC digital services were authorised by the Secretary of State, Chivers Press was bought by BBC Worldwide. The BBC did not buy Oneword. The shareholding reverted to USI, a Hong Kong based holding company that controlled Chivers. Oneword therefore lost its most important shareholder.

In September 2001, the announcement of BBC 7 persuaded GMG, Oneword's third shareholder, that there was no sense trying to persevere with a commercial speech network against such competition. GMG told us in conversation that the BBC's entry into the market closed the commercial opportunity to allow the slow growth necessary to get Oneword right. The shareholders were reconciled to taking time before seeing a return on their investment. They believed that it was important Oneword started very early to establish a presence in the new medium, as it would have been crowded out if it had entered late. But, in GMG's words: "We needed time. We didn't get it."

By the end of 2003, USI had also pulled out, leaving UBC as the sole shareholder but with a skeleton staff. Oneword still exists today, though it is a pale shadow of its original ambition and there are plans fundamentally to alter its format through a relationship with Channel 4.

Oneword claims that informal approaches about collaboration were made to the BBC on two occasions, both before the launch of BBC 7: firstly to establish whether Oneword could purchase BBC archive; secondly to determine whether there could be some sort of joint venture, with Oneword material playing in a slot on BBC 7's schedule. The BBC did not pursue either proposal.

UBC admits that the primary problem for Oneword was the slower than expected take-up of DAB sets. However, the charge against the BBC is that the BBC's entry as a direct competitor into the market destroyed the incentive of shareholders whose calculations had been based on there being no BBC competitor and their having time to establish a commercial position.

Other commercial companies that have no stake in Oneword or speech radio – Emap, GWR and Chrysalis – are equally exercised about the BBC's behaviour. They believe that it points to the disruptive effect of BBC unpredictability on the market.

The BBC's response

The BBC denies that BBC 7 in any way deliberately set out to undermine Oneword or that the Corporation took no account of Oneword's presence in the market when BBC 7 launched. The BBC argues that Director of Radio, Jenny Abramsky, had publicly signalled her ambition to launch such a station in 1999. The BBC claims that when they met with Oneword executives before the launch of BBC 7 and explained their schedule, Oneword was unworried and thought the two propositions would not directly compete. Oneword vigorously disputes this.

The BBC says that there have been clear attempts to differentiate from Oneword. Notably, Oneword is based around book readings, while BBC 7 is driven by comedy with only 15 minutes of readings a day. The main area of overlap, unabridged readings of books, was a DCMS condition that the BBC would have liked to drop.

The BBC set out to ensure deliberately complementary scheduling. It was responsible, it says, for ensuring Oneword's schedule was published in *Radio Times* alongside BBC 7. Its range of programming was far wider than Oneword's.

The decision by BBC Worldwide to purchase Chivers Press was not known to BBC Radio, nor was its significance appreciated when it was[37]. The BBC has done nothing to prevent Oneword continuing to licence new Chivers material for radio transmission.

The BBC defends, on two grounds, its decision to reject the idea of either selling BBC archive to Oneword or entering into a joint venture. Firstly, the BBC discovered that the licensing and preparation of much of the old archive for transmission was far more complex and expensive than it had ever imagined and the costs would have been too great.

Secondly, a joint venture would have undermined the BBC 7 proposition which it believed offered better value for money to the licence payer. Furthermore, if BBC 7 had been a joint venture with a commercial company its output could not have been promoted on BBC television, thus denying it one of its core tasks: to drive digital take-up.

It is the BBC's position that BBC 7, far from damaging Oneword, helped it, first by securing it *Radio Times* exposure, secondly, by helping drive the awareness of digital radio, exposing Oneword to a wider audience that would otherwise have sampled it.

7.10 BBC 7: assessment and recommendations

7.10.1 Performance against Approvals and Conditions

It is important to consider BBC 7 firstly in its own terms before being drawn into the Oneword argument, vexed as it is.

37 The decision to purchase Chivers Press was not referred to the Governors as the value was below the £10 million at which level approval is required. These guidelines have now changed so that such a purchase would now require Governor approval.

BBC 7 is a success in attracting an older, upmarket audience, and it is accepted by the commercial sector as being an important driver for the purchase of DAB radio sets.

BBC 7 has more than fulfilled all its conditions set by its own proposals to the DCMS (though these were extremely vague). It has successfully differentiated itself from Radio 4.

Although the great majority of its material is archive, the originated children's programming is a genuine adornment to British broadcasting and one that no commercial station would do.[38] Anyone visiting the BBC children's production centre, where children are at the centre of the programme making, cannot but be struck by the vibrancy and the experimentation that is going on. The two children's programmes Big Toe and Little Toe have successfully got rid of the preconception that radio children's programmes would inevitably be hideously old fashioned. They have developed a multi-media proposition where many children come to radio through the online sites.

71% of BBC 7's direct and indirect programme costs, £2.4 million, goes into the three hours of original children's production each day. This is a very large sum, but is spent on something unique to radio in the UK.

The wider network has been extremely assured and has successfully established its own voice. It has also created a sense of its own originality. However, as a contribution to innovation and new talent development, the overall benefits of BBC 7 are limited by virtue of its being primarily an archive network.

In its own terms, BBC 7 is doing what one would expect of a new network in the BBC's speech radio tradition. It is serving the licence payer with an assured product.

Market impact

7.10.2 BBC 7's impact on Oneword

Against this, one has to consider the relationship with Oneword and the lessons, if any, that should be learned. The Oneword affair raises in stark relief the fundamental questions about the BBC's market impact: on the face of it, here is a small commercial competitor in a market dominated by the BBC which appears to have be squeezed out by the BBC's reflexive competitive response.

38 Capital Disney is a music station. Abracadabra on the London multiplex cannot begin to approach the scale of the BBC.

Oneword was a remarkable endeavour, in its way far more ambitious than BBC 7. It was a genuine attempt by the commercial market to find a new business model that would make quality speech radio commercially viable. It preceded any BBC proposition and offered a service that the BBC was not supplying.

Oneword is not as good as BBC 7. It is impossible that it should be, though some of its programming, notably its book review programme, in the opinion of this Review, has been of a higher quality than the equivalent programmes on Radio 4. But no commercial station could compete with the wealth of the BBC's comedy and drama archive.

We cannot know if Oneword would have survived if BBC 7 had not come into the market, or BBC Worldwide had not bought Chivers Press. (It is important to note in passing that there is no evidence that the purchase of Chivers Press was designed to undermine Oneworld. It was a separate decision by the BBC commercial arm to take a bigger share of the audio books market.)

It is quite possible that the agenda of Oneword, reliant as it was on its archive source of unabridged readings and talking books, was too narrow for the market and would never have attracted a significant audience. BBC research suggests that there is little appetite for unabridged readings.

The tough conclusion is that Oneword entered an embryonic market too early with a proposition that was not sustainable at this stage in the market's development. It is very likely that Oneword would have been equally unprofitable had it stayed in its original share ownership. However, it would have had the stability that might have led the investors to shoulder their share of the loss as part of a longer-term investment. They had expected to go into profit in 2006. Oneword may have been losing money, but it was gaining reputation.

7.10.3 Potential partnership

There is also the contentious issue concerning the BBC's potential relationship with such a commercial start-up. Though commercial radio has no formal public service remit, the government has always encouraged public service competition. Here was an instance where an intellectually ambitious, educative speech radio station, of the sort previously only delivered by the BBC's public funding, was attempted by a commercial company. Had it succeeded, it would have brought public service competition to an area of broadcasting where previously there had been none. This would have been an undoubted public good.

Should the BBC have responded to Oneword's request for co-operation and sought a way to allow it to flourish at the same time as the BBC provided a new speech service, which did not so directly compete with Oneword?

The BBC could have licensed radio archive to Oneword. The BBC's arguments that the costs and complications of rights clearances made this impossible do not seem that persuasive. Oneword offered to take responsibility for clearing the rights and it has after all proved possible subsequently for the BBC to clear them. In licensing the archive to Oneword, it would have derived revenue for the rest of its services and allowed a commercial venture to create a worthwhile speech network. It should at least have costed the option and given Oneword a price for acquisition.

A partner relationship similar to the Flextech/UK Gold television proposition might also have been possible. But the BBC did not want to consider UBC's proposition to turn Oneword into an independent production base making programmes for BBC 7.

The one strong argument that the BBC has against such a deal is that it would not, under competition rules, have been possible to cross-promote a joint venture on BBC services, and this service was a key to DAB take-up.

It is my view, having listened to all sides of the argument, that the BBC was basically unconcerned about the potential effect of BBC 7 on Oneword. It saw Oneword, when it thought about it at all, as a competitor. The BBC itself had a good proposition that fulfilled many of its public service ambitions and, in pursuit of them, did not allow concerns about potential market impact to get in their way. The DCMS gave them the green light. They could reassure themselves with the argument that BBC 7 was a very different station to Oneword because they knew its difference was the result of the superiority of its archive. From the moment BBC 7 launched, the Oneword assumption that it would be allowed to pursue this market alone was scuppered, and so was the station.

7.10.4 Lessons for the DCMS

However, the BBC can argue (as the Governors do) that such concerns are nothing to do with the BBC.[39]

The entry of BBC 7 into the market was a matter to be decided not by the BBC but by the DCMS. It is impossible not to conclude that the DCMS, in framing BBC 7's Conditions, was surprisingly indifferent to

39 See Chapter 8.

a commercial service already in the marketplace, pioneering a technology that it was government policy to encourage. The Secretary of State, in approving BBC 7, admitted it would compete with Oneword but argued that it could increase the audiences for both services if it drove digital take-up. It is true that Oneword's audience has increased (to 89,000) but it is at little under a quarter of BBC 7.

The principle of public service competition should be an important factor in the Government's consideration of future digital stations. In public policy terms, it might have been better if the opportunity to engender public service competition in speech radio had taken priority over the BBC's institutional interests in expanding its own services.

However, to argue that the BBC should not have launched BBC 7 is to argue that considerations of market impact should override BBC ambitions to launch a service that would benefit the licence payers. That problem goes to the heart of the BBC's future role in the digital market, and that is why the implications of the Oneword issue remain important. The Oneword issue itself is finished and the commercial sector want to move on, though they believe lessons should be drawn and these are outlined below.

7.10.5 Recommendations

Archive sales

- **The BBC Radio Archive should be available to commercial purchasers. There should be guidelines drawn up and agreed by DCMS on those circumstances where the BBC can justify refusing to sell archive that it has no current plans to transmit. It must be able to show it has clear and realisable plans for its use if it is not to make it available for sale.**
- **In planning any future services, which may be predominantly archive-based, the BBC should, in future, examine the basis on which it could consider a joint venture with the commercial radio sector.**
- **When drawing up remits and licences for BBC services, the Governors should take account not just of market impact issues, but also of the benefits of public service competition.**

Children's services

- **The BBC should be encouraged to increase the amount of original programming on BBC 7 and, as the audience appetite for its children's radio services becomes clearer, consider increasing investment and hours broadcast.**

7.11 Five Live Sports Extra: evidence

7.11.1 Summary of remit

Five Live Sports Extra was designed as a "top up" sports service that would only broadcast intermittently. It allowed the BBC to extend its broadcasting of its existing sports rights. The Secretary of State specifically instructed the BBC not to buy additional sports rights solely for use on Sports Extra.

Sports Extra was the first of the BBC's new digital services to launch in February 2002. It complements Radio Five Live by broadcasting additional commentaries from the FA Premiership, Nationwide League, Scottish Premier League and Cup competitions. It broadcasts additional commentaries from rugby union, rugby league, Formula One, cricket, tennis, athletics and golf. It also covers some minority sports.

It is one of three BBC Radio sports outlets, the third being Radio 4 Long Wave, which is used for uninterrupted coverage of Test Match Cricket.

As Sports Extra is an occasional network, calculations of its audience figures have a limited value.

BBC PROPOSALS	o BBC Five Live Sports Extra will provide an alternative platform for the broadcast of live sport, with the production values associated with Radio Five Live Sport. o A new service provides us with the opportunity to exploit rights belonging to the licence payer more fully, offering further choice to the listener of live sports coverage and better exposure for the rights holder, thus ensuring better value for money for the licence fee spend on rights. o Five Live Sports Extra will offer front-line live sport as an added service and as a complement to the events on its analogue frequency.

DCMS CONDITIONS	o The service will broadcast live sporting events which cannot be accommodated on BBC Radio Five Live. It will not be a full time network. o In particular, the service must be used solely as an overflow for rights that have been obtained for broadcasting on Radio Five Live and Radio 4 Long Wave and must not provide an additional outlet for which the BBC will bid against commercial broadcasters.
BBC FURTHER COMMITMENTS	o Test Match Special and Rugby Six Nations which are currently broadcast on Radio 4 Long Wave[…]will move to Sports Extra as their digital home. o Sports Extra will have the same high quality as Five Live. o Sports Extra's coverage will be commentary based and consist of alternative general sports programming.

7.11.2 The BBC's account of its performance

The BBC's case is simple: Sports Extra provides extra choice to the listener, both in offering a choice of sports when major events clash and in offering choice between matches during major competitions, be they rugby, football or tennis where these frequently occur.

It offers a marked increase in value for money for the licence payer. Many of the events covered would not have been if Sports Extra had not existed.

It improves choice across the BBC's spectrum of coverage, allowing extended news coverage on Five Live while, for those with access to digital, the sport remains available. This was important during the Iraq crisis.

It provides uninterrupted commentaries – there need be no breaks for news and travel bulletins, or other sports updates.

It has the flexibility to change the schedule at short notice to accommodate rescheduled sporting events.

It trains up talent, especially commentators who can be blooded on live matches without the same scrutiny as on Five Live.

Sports Extra has also worked with the Asian Network, arranging cricket coverage of the India/Pakistan Test series. The idea to do this came from the Asian Network.

The Five Live website offers feeds of commentaries where the BBC has the audio rights. It also offers a direct link for listener participation.

The scrolling text application of DAB is of special relevance to sport. It allows added detail of scores, and background information to the match.

The BBC provides many examples across all the key sports outlined by the Secretary of State of instances where Sports Extra has extended choice and allowed enhanced coverage.

It also identifies minority sports where the rights were available free, notably basketball and ice hockey, where Sports Extra covered the event which otherwise would not have been broadcast.

The BBC's long-term ambition to move sport off Radio 4 Long Wave remains, but such a move is not possible until there is far heavier penetration of DAB radio.

7.11.3 The View of the Competition

The sports market

Sports coverage on radio is a very particular market. It is also very different from television. There is one national sports network, talkSPORT, broadcasting on AM, and football is also broadcast on local radio – both BBC and commercial.

For some of the respondents to the consultation, especially those who concentrate on music radio, Sports Extra was an obvious and sensible use of BBC digital spectrum. However, for some commercial radio companies who rely on local radio football rights, Sports Extra pointed to wider issues involving the BBC's role in the radio sports market which would be exacerbated in the digital world. The main focus of the critique of Sports Extra, as part of BBC Sports in general, came from the enjoyably pugnacious response of Kelvin Mackenzie, Chairman of talkSPORT.

Sports Extra's performance

There was no criticism of Sports Extra's content, or of the quality of the BBC coverage. BBC Radio's sports coverage is universally admired for its energy and professionalism. It is something the BBC does extremely well. The contentious issues revolve solely around the amount the BBC bids for sports rights.

The value of rights

As the BBC has not bought additional sports rights specifically for Sports Extra, the issue of rights is strictly outside the brief of this Review. However, as the Review has also been charged with assessing the BBC digital services in the wider context of Charter Review, and as value for money issues inevitably revolve around how far the prices the BBC pays for sports represent a justifiable use of public money, it seems reasonable to address commercial radio's concerns in this regard.

Emap states in its submission: "Consideration needs to be given to a level playing field with respect to sports rights and other paid for content [...] Emap find it difficult to see how the existence of [Sports Extra] will not be a significant factor in the future negotiation of sports rights."

The division of radio sports rights

The real contention arises over the pricing of major football rights, which are far more expensive than for any other sport. It is important to understand how the buying of radio football rights works, as it is different to television. In England, the Premier League sells a package of national radio rights exclusively. However, there remain local rights which are sold by the individual clubs. These are bid for by local radio and have been important ratings drivers for both BBC and commercial local services. Hence one match may be transmitted simultaneously on three networks: nationally, and on the two respective local radio networks of the home and away teams. In Scotland, the Scottish Premier League handles both sets of negotiations.

Criticism of the BBC strategy

There were two major criticisms of the BBC's strategy relevant to Sports Extra.

Scottish Radio Holdings (Emap is now a shareholder in SRH) and the Commercial Radio Companies Association (CRCA) believe that the BBC's purchase of exclusive rights to the Scottish Premier League for both national and local radio, which took place after the establishment of Sports Extra, represents a new and more aggressive stance in sports rights acquisition. It was SRH's contention that the BBC, in signing an exclusive deal with the Scottish Premier League, had used its dominant position on UK and Scottish platforms to gain an unfair advantage.

talkSPORT

The principal criticism of the BBC came from talkSPORT. The basis of the criticism is that the BBC deliberately pays over the market price to acquire sports rights and so creates a market that would otherwise not exist.

(It is also instructive to note the opinion of Mark Oliver, of Oliver and Ohlbaum, the independent consultant retained by the BBC to assess the market impact of the digital services. In his conversation with us, he told us he believes that if the BBC did not have a position in sports broadcasting, there would still be a competitive market to create a sports network but the price paid for rights would be considerably lower.)

talkSPORT understands that the BBC paid £39 million to the Premier League for exclusive rights over three years. This is equivalent to the total turnover of talkSPORT (£12 million, with operating profit of £1.3 million), its only national competitor. talkSPORT puts a value on the rights of £6 million over three years. Kelvin Mackenzie calculates that this would be a market price on the basis that the acquisition of Premier Football would have added 500,000 listeners to talkSPORT's reach of 2.1 million. The BBC figures are impossible to verify and it will not comment on the price paid for sports rights.

The BBC gained exclusive national radio rights to the Premier League in the last negotiations by winning the bidding for three separate packages of rights. talkSPORT objected to the way the rights had been divided by the Premier League and offered for a particular set of rights different to those in the Premier League bundle. Its offer was turned down.

talkSPORT objects to the fact that, even with its Sports Extra network, the BBC still cannot cover many of the matches for which it has bought rights. Kelvin Mackenzie argues that it would be better value for the licence payer if some of these matches could be covered on commercial radio, for which commercial radio would pay, thus reducing the BBC's cost to the licence payer.

It is talkSPORT's contention that the BBC seeks to be a monopolist in rights and justifies its level of acquisition by creating new stations on which to run them. In this way, it denies a commercial station the opportunity to buy rights for sports at market prices, which the BBC would otherwise have to forego, not having the space to run them. talkSPORT believes that it is competing against three publicly funded stations[40] in a situation where it suits both the publicly funded BBC and the rights holder to inflate the price of rights far beyond their market value.

40 Radio Five Live, Radio 4 Long Wave and Sports Extra.

talkSPORT also objects to the competitive advantage the BBC sports networks have in their cross-promotion opportunities. The BBC's promotion of digital radio has concentrated on the individual BBC services. This gives Sports Extra, and by extension Five Live, a profile which talkSPORT estimates would cost it over £30 million to obtain through advertising.

7.12 Five Live Sports Extra: assessment and recommendations

Performance against Conditions and Approvals

In its own terms, Sports Extra is an ingenious use of spectrum and has clearly met the Secretary of State's Conditions. It has done exactly what it said it would do. It offers high quality additional choice to the licence payer, who gets access to material that has already been paid for.

It also offers wider editorial benefits. It allows Five Live to cover major news events as they happen whilst maintaining its sports coverage. In so doing, it is enhancing Five Live's significant public service role in bringing a new and younger audience to news and current affairs through sport.

It has increased the coverage of minority sports. It has increased the range of cricket coverage and helped the BBC reach out to ethnic minority audiences.

The BBC has, on the evidence, stuck carefully to the Conditions of the service. Those additional sports covered have come to the BBC effectively for free. However, were a commercial station to seek to buy the rights for basketball or ice hockey, then in future it would be wrong for Sports Extra to run these events if they did not run on Five Live too.

The only additional rights bought were primarily for the Asian Network's coverage of India-Pakistan, which Sports Extra partnered. The cost however, we are told, was extremely low.

Market Impact

The market impact of Sports Extra is not a significant issue. It is an occasional service, not a separate brand. It is part of Five Live. If Sports Extra was not there, it is very hard to believe there would have been a noticeable impact on the audience for, or investment in, Five Live's commercial competitors, notably talkSPORT. The central commercial issues relate to the BBC's overall handling of sports rights rather than the launch of Sports Extra.

As stated earlier, these sports rights issues are, in one sense, beyond the formal limitations of the Secretary of State's brief. However, they are the overwhelming concern of the submissions we received on this subject.[41] This Review believes that it also is justifiable for Sports Extra to be considered in the light of the overall sports radio market, because in radio, unlike television, there is no separate subscription market.

In the overall context of Charter Review, the issue of sports rights pricing by the BBC needs to be addressed.

Scottish Radio Holdings and the Scottish Premier League Rights

Having examined the issue relating to the Scottish Premier League (SPL) rights in Scotland, it is clear that neither did the BBC seek an exclusive deal with the SPL, nor was SRH in the commercial sector disadvantaged. This is for the simple reason that in the event SRH offered no bid, having decided that the market price would be too high. No other commercial station bid.

talkSPORT

The issues raised by talkSPORT are worth taking more seriously. It is easy to see why a national commercial radio network feels disadvantaged by a publicly funded broadcaster with three networks capable of carrying sports ranged against it.

Furthermore, though the BBC's quality of coverage is quite excellent, there is not the same argument for editorial distinctiveness or market failure that can be applied to other BBC services. Sports Extra unquestionably extends choice but that choice, in this instance, would equally be offered by the commercial sector.

The BBC denies that it ever seeks exclusivity in national sports. Its exclusive deals, which apply to national rights for Premier League football, tennis and cricket, are a result of the bidding process demanded by the rights owner who is seeking to maximise the price in the market. The BBC points out that it has been outbid for radio sports rights. It cites talkSPORT's acquisition of the 2002 Ashes series in Australia for an inflated price of £650,000 (the previous price being £14,000)[42], only to sell them back to the BBC, for a considerably cheaper sum, when the inadvisability of the deal became clear.

41 See Chrysalis's submission at Appendix 10.7.

42 Figures supplied by the BBC.

In this debate, it is impossible to move beyond claim and counter claim, as the exact prices paid are commercially confidential. However, there seems to be a substantive public policy question about the use of public money in creating a market and inflating prices paid for sports rights. The BBC states that it uses an expert to model the price in the market and to set the BBC's bid accordingly. As the Ashes demonstrates, the BBC can be outbid for sports rights. However, one should take on board Mark Oliver's view that if radio sport were simply a matter of commercial competition, then the price of rights would be lower.

The present system no doubt benefits the various sporting bodies, but it does not necessarily represent good value for money for the licence payer. Most worryingly, it is impossible to reach a judgement as to whether the BBC is using public money to pay over the market price for radio sports rights because the figures are confidential.

7.12.1 Recommendations

- **The DCMS should appoint a suitably qualified expert or organisation to have access, on a confidential basis, to information on BBC sports rights contracts. S/he should review the BBC's strategy for, and approach to, sports rights negotiations and the processes that the Corporation has in place to ensure that it does not pay significantly more than the market rate.**
- **Sports Extra, while staying within its remit not to buy additional rights solely for its use, should be encouraged to increase its coverage of minority sports which will not be covered by commercial radio.**

8. The Governors' Performance and the Future

A number of common issues emerge from these individual reviews. The recurrent theme is how to strike a balance between assessing a BBC service in its own terms and in terms of its competition. Once again it is the definition of distinctiveness that really matters.

8.1 Distinctiveness

Distinctiveness and listener benefit

Firstly, it is as important not to fall into the trap of only considering the BBC services in relation to their competition as it is to ignore the existence of that competition.

Secondly, it is vital to distinguish between the value to each individual listener of a particular station and the competition issues that might arise from that station's effect on the rest of the market. Unsurprisingly, both commercial radio companies and Ofcom emphasise the latter issue. However, this can overlook the BBC's main purpose: listener benefit.

The fallacy of so much thinking about the digital market, in radio and television, is to confuse the offer to the listener of a range of choices with the satisfaction with an individual choice once selected. Choice, in itself, does not guarantee satisfaction. It is good for the listener to have a range of options to choose from. It is more important that, once the listener has chosen what to listen to, it is thought to be good.

The BBC services are widely thought to be good by those who listen to them. They have, in formal terms, effectively fulfilled the Conditions set by the DCMS for their approval.

Their editorial content is of a generally high quality.

They have attracted small but enthusiastic audiences and their presence has been a factor in driving digital take-up.

They have, to varying degrees, points of distinctiveness.

Their key differentiation is in their commitment to news and current affairs, and their commitment to British talent and to new talent.

They are particularly innovative in their cross-platform and online identities.

They have made better use of the rights owned by the BBC and so offer more choice to licence payers.

Their presence has allowed the BBC to use its unrivalled power of cross-promotion to drive digital take-up.

However, their role in driving digital take-up themselves is less clear. BBC 7 has been a significant reason for the purchase of DAB sets. However, 1Xtra and the Asian Network have not increased overall BBC reach, though they have together increased the BBC's reach to ethnic audiences by 6.1%.

Though their audiences are small and costs are far higher than their commercial operators, they remain value for money in terms of the overall BBC licence fee.

Distinctiveness and the competitive climate

However, this satisfaction has to be set against the fact that the market in which the stations exist is developing fast. Conditions and Approvals that were thought adequate three years ago may no longer be sufficient as other services challenge the BBC's claims to distinctiveness.

Lessons for the DCMS

Hence it is not contradictory to admire the BBC digital services but to judge that the Conditions and Approvals that the DCMS believed would enshrine their distinctiveness are, in hindsight, insufficiently clear, and need to be more detailed to ensure their clarity of purpose going forward. It is, for instance, incoherent for the BBC services to be governed by three separate sets of definitions – the BBC original proposals, the DCMS Conditions and the BBC Statements of Programme Policy. There needs to be one document, with a clear editorial definition, which will both allow the BBC the creative flexibility to develop the services, and allow the commercial sector the comfort of planning their business strategy with some predictability.

8.2 The Governors' role and performance

The BBC Board of Governors is responsible for the BBC digital radio services fulfilling the conditions set out by the Secretary of State. She gave them a specific task of including *"an analysis of the distinctiveness of the service"*.

A subcommittee of three Governors was set up specifically to monitor the digital services. When we met with them, they explained that "the manner of Governance was evolving".

The Governors have met 14 times to consider the BBC's digital services overall, though from their account, the focus has been in large measure on the television services.

The Governors viewed their responsibility for the new services within the strategic framework they had laid out for the BBC's overall purposes:

- Provide high quality programmes of content
- Uphold the BBC's editorial values
- Offer a distinctive mix of programming and content
- Contribute to the achievement of the BBC's public objectives
- Demonstrate public value or appeal to licence payers.

The BBC's public objective in relation to digital radio was defined as:

- Providing something of value to all digital audiences
- Providing a wide range of interactive learning opportunities
- Helping drive digital take-up and extending the availability of the services.

The Governors use the BBC Statements of Programme Policy (SoPPs) provided by the Executive to review the digital services' performance. This goes beyond the requirement of the Communications Act to publish SoPPs for the universally available channels.

The Governors have not commissioned any independent advice on the market impact of the new digital services, although they have reviewed BBC management's independent market impact studies, notably the O&O Report. However, the O&O Report states that it did not conduct a comparative review of the BBC and commercial digital service schedules.

The Governors' verdict

The Governors have professed themselves almost entirely satisfied with the digital radio services.[43] They concluded:

"Sound progress has been made in helping to drive digital take up and there is evidence that the digital services' output has been strengthened, but continued scrutiny will be necessary to ensure that the new services are offering good value for money."

They note the importance of the BBC's co-operation with the commercial sector in the DRDB. They quote the O&O conclusion that BBC services have had "a vital role" in driving digital penetration.

They also quote O&O in support of their conclusion that: "The BBC's services are distinctive when compared to the commercial offerings and are consistent with the Corporation's public purposes." They cite again the O&O Report's findings that the BBC services are "complementary to the commercial operators", with their high levels of UK content.

The Governors' analysis of distinctiveness seems largely based on O&O's specific findings on the individual stations, and the BBC management's reports.

The Governors have singled out 1Xtra for scrutiny. The Governors note that 1Xtra has "taken time" to reach its target that "around 10%" of its output should be news and current affairs. They conclude: "further work is needed to ensure that this level is maintained if not exceeded in the future." They also emphasise: "the importance they attach to the quality as well as the quantity of this output and this will be a matter to which they will pay particular attention in future performance assessments."

The Governors state that BBC 7 will "further refine the offering to make it more attractive to its target audience", though they do not expand on what this may mean for the service.

They note the BBC Asian Network's intention to widen the agenda to include the importance of Asians in business. The Governors also consulted with the Asian members of the Advisory Council for the English Regions.[44]

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43 The Governors' verdict on the digital services can be found in three documents. The BBC Annual Report of 2003/4, the Governors' Foreword to the BBC's submission to the Secretary of State on the digital services, and a further briefing note to this Review on the Governors' oversight of the digital services. For this last document see Appendix 10.3.

44 The BBC disbanded its original Asian Advisory Council when the network went national, as it was regionally based. The members joined the wider body for the English regions.

8.3 Assessment of the Governors' role and performance

The BBC Governors told us that, once the services had been approved, mindful of the fact that these were fledgling services, they wanted to give management the freedom to interpret the DCMS remit. It would have been wrong for the Governors to be prescriptive, though the remit and the Statements of Programme Policy are reviewed twice a year.

The Governors are broadly happy with the BBC's performance in meeting the Secretary of State's Conditions and though this Review has made some points about the potential for a more ambitious Asian Network, this is a fair and reasonable conclusion.

The Governors' view of the services coincides, in many ways, with that of this Review and, indeed, with those of the BBC's competitors. On one of the prime public purposes – to promote digital take-up – there is unanimity that the BBC has had a significant impact.

However, in reading the Governors' report on digital radio, it is impossible not to get the impression that for the most part they are pulling together the executive's account of the services' performance and the level of questioning of the individual services has been limited. It was notable that, in the one instance where an improvement was demanded – of 1Xtra with regard to the quality of its speech output – it was a result of a Governor having monitored the service personally, and having some pointed questions about what he had heard. However, it is also clear that the Governors had been very closely involved in monitoring the television channel BBC Three, and, in comparison, the digital radio channels were not of such pressing editorial concern.

Governance and market impact

The one issue where the Governors' point of view is at odds with that of this Review is the lack of importance they have attached to the BBC's relationship to the rest of radio. The Governors were quite explicit about this in our conversation with them. They see their role as ensuring the licence fee payers are well served. They see matters of market impact as the responsibility of the DCMS.

In considering the BBC's value for money, they pointed to the fact digital radio takes just 8p per month of every £116 licence fee. (It is indeed a small proportion for the BBC, though a significant sum in commercial radio terms.)

However, as argued at the outset of this Review, one consequence of digital radio is that the collision of commercially funded ventures and BBC services is becoming of far greater significance in an increasingly competitive market.

As the new Chairman of the BBC has acknowledged, the onset of the digital age ought to result in the governance of the BBC taking more account of the developments in the market than before. It was our impression that the Governors had still tended to review the BBC as an island unto itself and not as part of the broadcasting landscape.

When they did consider the wider market, the Governors had taken great comfort from the Oliver and Ohlbaum Report. This had been commissioned not by the Governors but by the BBC management. The Governors had asked questions of the management to satisfy themselves of its impartiality. However, given the weight which they attach to its conclusions in supporting their analysis of the services' differentiation, it is surprising, to say the least, that at no time did they interview Mark Oliver about his findings. If they had done so, as this Review did, they would have got a wider and balanced perspective on the BBC's role in the market, but one that does point to questions – at the role played by BBC 7 in particular.

Though the Governors have kept a clear eye on the digital services, one does get the impression that the O&O Report was used as ammunition to support the BBC's case, not as an instrument to reach an impartial view of the BBC's position in relation to the rest of the market. Given that the Secretary of State has specifically asked them for "an analysis of the distinctiveness of the service", the Governors might have taken their questioning further than appears to have been the case.

The Governors and Ofcom

The Governors have acknowledged that there is an issue about the predictability of the BBC's strategy. It follows that they have a responsibility to provide a level of certainty to the rest of the market. This is one of the issues they intend to address in their drawing up of the service licences for every BBC service. They also accept that they will need more resources to conduct the level of scrutiny now deemed appropriate.

To date, the Governors have never met with the Radio Authority, or latterly with its successor Ofcom, to consider the relationship between the accountability of the BBC services and that of their commercial counterparts. It was the Governors' view that their job was to ensure quality, diversity and value for money to the licence fee payers. Accommodating the views of competitive commercial broadcasters, we were told, was none of their concern.

This argument seems to equate the concerns of the commercial radio regulator with the concerns of the commercial radio broadcasters. The Governors are quite right that their judgements should not be defined by the commercial sector's concerns. Nonetheless, there could be great dividends from an approach that sought to resolve the tensions and suspicions that can easily arise between the BBC and the commercial radio broadcasters.

In particular, given the genuine concerns of commercial radio about the predictability of the BBC's actions in the market, the current absence of any common framework in which to assess market impact is clearly undesirable. There needs to be an agreed approach between Ofcom and the BBC Governors, which can be used in future by both regulatory bodies when reaching their independent judgements. It makes little sense for there to be a variety of independent analysts' reports, dancing on the head of the pin of competition theory.

It is not to criticise the BBC's values or performance to believe that a coherent and co-ordinated understanding of the UK radio industry, undertaken together by the respective regulatory bodies, would be extremely advantageous.

The Governors might also find it valuable to meet with the CRCA, given the success of the co-operation between the BBC and CRCA in the DRDB.

Recommendations

- **The Governors, in order to provide "an analysis of distinctiveness" as instructed by the Secretary of State, should specifically include analysis of each service in relation to the rest of the market. The Governors will need additional resources to be able to make this judgement effectively.**

- **The BBC and Ofcom should establish an agreed framework for quantifying the potential market impact of any BBC service. The two bodies should also meet periodically to consider wider issues of market significance.**

- **The Governors should encourage BBC management to build on the co-operation in the DRDB and establish a forum that discusses the wider relationship between BBC Radio and the commercial sector.**

8.4 Licensing arrangements

This Review has concluded that the BBC radio services, in relation to the commercial sector, do not have to be judged primarily by their spend, or by their popularity. What matters is their distinctiveness.

Though the commercial sector is in many ways admiring of the quality of the BBC services, its consistent criticism remains that there has been insufficient definition in the BBC services' remits which are meant to define that distinctiveness. This lack of predictability adds an unnecessary extra risk to consider when planning a commercial investment.

This is largely because the Conditions and Approvals of the BBC services are general and less quantified than those in the formats of commercial stations.

Licences and formats compared

It is instructive to compare the Approvals and Conditions of 1Xtra and 6 Music with those of their commercial rivals. 6 Music and Xfm both have a remit to play specialist rock music. 1Xtra and Choice FM both offer "Black music" for a targeted audience.[45]

It is evident that the licences issued by the Radio Authority (now Ofcom) for commercial analogue (FM/AM) stations go into greater detail than the DCMS Conditions for the BBC services. The commercial licences generally set more quantitative targets to define the output in a way the BBC digital stations, except in one or two instances, do not.

Because of the DCMS Conditions, the remits for the BBC digital stations in fact have greater definition than those for the established national BBC analogue stations, whose remits are entirely self-regulated by the BBC. It is also true that the commercial digital stations do not have such detailed licences, and their description is often no more than a paragraph.[46]

It is also arguable that, in the new, increasingly competitive digital market, it is over-restrictive for commercial radio still to be subject to detailed specifications, which were designed to ensure diversity in an age of spectrum scarcity. The BBC supports commercial radio in arguing for less detailed formats. This is an issue outside the scope of this review.

45 The formats for Xfm and Choice FM can be found in Appendix 10.6 and compared with the BBC Approvals and Conditions for 6 Music and 1Xtra in Chapter 7.

46 For example, the Description of the Licensed Service for Capital's digital station Century Digital reads: '*This service will play adult-oriented hits drawn from the last 20 years, recent melodic songs and soul, complemented by some contemporary easy listening tracks.*'

However, so long as commercial radio operates under the existing detail of format regulation, it seems reasonable that all the BBC radio service licences, to be drawn up by the Governors, should be directly comparable with those governed by Ofcom. The BBC digital services have budgets in excess of commercial FM stations and are competing in the same market, so it seems reasonable to compare their licence conditions with those of all commercial radio, not just with the looser conditions of commercial digital radio. In this way, the distinctiveness of the BBC services can be properly assessed.

The BBC Governors admitted they had not studied the commercial radio formats, but told us that "they would not welcome that much detail". However, given that the Governors recognise the need for the BBC to be predictable in its plans as far as the commercial competition is concerned, it seems essential that they draw up their service licences so that the distinctiveness of their formats is directly comparable with the commercial sector. It is a further reason for a regular closer working relationship between Ofcom and the BBC Governors.

Some quantitative measures already set are rather crude devices that do not necessarily help towards the distinctiveness of the service. The reviews of 1Xtra and the Asian Network both point out that the stopwatch measurement to compute minutes of speech broadcast is a blunt utilitarian instrument that does little to encourage the richness and quality that is expected of these services. Even if such primitive measures help give a broad approximation to the commercial services, the remits of the BBC services would be clearer if other targets for defining the range and types of programme and subject coverage were developed.

In fact, the work done by the BBC in its submissions to the DCMS for this review has already quantified much of its output, and this gives a useful benchmark for some targets for the BBC. If the BBC service licences simply make transparent the broad proportions in their current formats as a means of defining their distinctiveness, then they will give the commercial sector the clarity that they seek without distorting or constricting the BBC's editorial and creative ambition.

Conclusion

This is not intended to fix the BBC services in stone. These are creative services and must have the editorial flexibility to adapt. The BBC cannot be asked to be innovative on the one hand and entirely predictable on the other. But there should be an evidential point of reference to which both the BBC and commercial radio can refer when judging the complementarity of the respective output.

At such time as commercial radio licences become less rigorous, so the BBC licences could become more flexible. But the BBC should always have more stringent conditions setting out its particular public service responsibilities and the measures by which it seeks to attain them.

If commercial radio loses some of its range and diversity in the pressures of digital competition, then it is all the more important that the BBC provides it.

Recommendations:

- **The BBC digital radio services should, in the service licences issued by the BBC Governors, have measurable targets similar to those set out in format agreements authorised by the Radio Authority (now Ofcom) to commercial radio stations. The BBC licences should be drawn up with reference in part to their competitor commercial stations. This will allow clear points of measurable differentiation to be established.**
- **Targets for the broadcast of speech, currently expressed solely in broad percentage terms, should also express more accurately the editorial range and ambitions of the programmes.**
- **The position of the BBC within the wider radio market should be subject to quinquennial review by the BBC Governors and by Ofcom alongside the overall review of public service broadcasting.**

8.5 The future

The discussion about the BBC and its place in the digital radio market has, in the evidence to this Review, been conducted very much in present day terms. However, this Review began with the observation that digital radio is in its infancy. Much of the commercial critique of the BBC's role has been from the perspective of analogue radio. This may not be a useful approach going forward.

There are three fundamental differences between the old and new worlds of radio.

Radio is fast becoming a medium that does not have to be used in real time and is not restricted to radio sets. The popularity of listening "on demand" and downloading of material appears to be a significant factor in the 15 year plus generation's interest in the medium. Digital radio, having developed across platforms on Dsat and Freeview, has become a cross-platform medium. Prominence on what were conceived as "television" platforms will continue to be a factor.

The current state of digital access is not adequate for the needs of the industry. Not only is 15% of the country not covered by any multiplex, the existing multiplexes are not sufficient to carry the radio stations in their areas. 50% of FM stations are not on digital multiplexes.

The long-term potential of digital radio data services has scarcely been explored. The immediate developments are likely to be the establishment of Electronic Programme Guides (EPGs). However, the longer-term commercial potential of using the spectrum for providing data services to portable receivers is of far greater significance. It is the means by which commercial radio, a mature industry as now constituted, can break through into a new and valuable market. The role of the BBC has an impact in each of these areas.

A cross-platform medium

The BBC's investment in online gives it an enormous advantage in digital radio. It is one that redounds to its credit. The BBC websites for all the digital radio channels have been developed as part of an integrated proposition and enhance the identity of the service. They are a tribute to the BBC at its most strategic and innovative.

These sites must be considered a significant driver in the promotion of digital take-up. In a fragmented digital world, any future successful radio station will develop an intimacy with its listeners that will essentially turn the relationship into a conversation. The BBC websites are achieving this.

We were surprised that this great asset was one not mentioned by any commercial station. It should not be a matter of complaint – for each BBC website is absolutely in keeping with the BBC's core purposes – but the level of their ambition, and their importance for the future, is a lesson the commercial market ought to note.

The use of the Freeview platform has also been a key BBC contribution to the growth of digital radio. It is our understanding that BBC space on this platform is now full. However, across the platform as a whole, any available space that can be offered to radio will undoubtedly further drive take-up.

Spectrum

The future allocation of spectrum is being considered by a separate review and is outside the scope of this one. However, the issue of whether there should be a third national multiplex was a very contentious one in many of our conversations.

The commercial sector is agreed that the BBC should have no more space, but is divided as to whether there should be a second national commercial multiplex. GWR understandably is adamant that its risk investment, where others feared to tread, was based on an assurance there would only be one such multiplex. Other commercial operators expressed keen interest in being shareholders in a second. SRH made a telling point that, were there to be one, it should not be London-based.

From these many conversations, it seems clear that the priority for ensuring digital radio take-up is to encourage as rapid a move towards universal coverage as possible. Quasi-national networks are developing anyway through transmitting versions of FM services on a number of different digital multiplexes. It is outside the scope of this review, but there is a public interest issue in ensuring that Asian commercial services, in the absence of access to a national multiplex, are ensured as widespread coverage on regional multiplexes as possible. In this way, they will be able to compete with the BBC national service.

Commercial radio investment in digital will prosper if it has priority for the remaining Band Three spectrum to be allocated, with BBC local radio maintaining its current right to be carried on the relevant local multiplexes. There will still be a question of BBC local radio's digital coverage in areas where there is no commercial case for a local multiplex. The BBC says that it has no plans for further services, and it will use its spectrum in the first instance to improve its current offering, and develop an EPG. The BBC also needs to continue to invest in digital transmitters to grow its reach across the country.

However, if the "white space" on the UK digital radio map is filled in by a wider network of commercially owned regional and local multiplexes, then commercial radio will have gained the footprint it needs to grow its business. The successful trade-off between the BBC and commercial radio outlined at the beginning of this Review will then have been achieved.

Data services

The provision of data using DAB spectrum is one of the most exciting potential ventures for the radio industry. It marks the point at which telephony and radio converge. DAB is seen as the ideal "one to many" mobile data delivery system. DAB could deliver audio, text and videoclips to mobile telephones. The dedication of 20% of the digital spectrum to such purposes is potentially the most commercially valuable part of DAB. It is for this reason that Digital One elected not to use the spectrum made available by the collapse of ITN News Radio and Bloomberg Radio to re-tender for additional radio services, though there were many expressions of interest. They have preferred to lease the spectrum to BT, which will act as a wholesaler for possible data services. This will provide a different revenue model beyond advertiser funding for the commercial radio industry.

This Review has frequently pointed to the fact that the BBC invests far more in content than does commercial radio. As digital radio converges into cross-platform content, BBC content will become even more valuable. Its public value will again raise issues of market impact. There is no doubt that BBC news and information carried by DAB data services would be a great civic benefit. However, being available free, it is potentially a significant competitive distortion in the market. Yet so long as the BBC sees itself as a public service content provider, and this content is not used to commercial advantage, competition problems should not be insoluble.

Independent production

Finally, a detailed examination of the arguments surrounding the BBC's 10% independent production target for analogue radio is outside the remit of this review. However, in the context of the future developments of the BBC's digital stations, I hope that the BBC's current review of independent production in this area will conclude that this target should be extended to the digital stations within three years. Charter Review provides an opportunity for this to be discussed further with organisations such as the Producers Alliance for Cinema and Television (PACT).

Recommendations

- **The BBC should set out its strategy on the potential use of its content on DAB data services. This is another area where formal discussions between Ofcom and the BBC Governors should take place.**

- **The BBC should ensure that it continues to extend the reach of its multiplex beyond the current reach of 85%.**

8.6 Conclusion

It has been a central tenet of Government policy, running through the Communications Act and into Charter Review, that public service broadcasting is likely to be even more important in a digital world than it has been in the past, and that a strong and independent BBC should be at its heart.

This Review of the BBC digital radio services confirms this. The BBC has launched new services that are in keeping with its own high standards and our expectations, even though there is room to make them even better. It has been able to do this because of the enormous privilege of its licence fee funding. It has gone a long way to meeting the Secretary of State's aspirations: reaching out to new audiences and challenging the market to do even better.

But the BBC has to recognise that the digital world does fundamentally change its relationship to the rest of broadcasting. Digital radio is only just beginning. We are only just beginning to see what it can do. Its commercial success is not yet, by any means, fully assured. Nonetheless, it is an enormously exciting medium whose potential has often been overlooked in the concentration on digital television. Radio is becoming a converged medium, one in which the users' experience can be enriched in all manner of different ways.

But, in this world, if the BBC is to "have an important but not overpowering presence in the digital future, a presence not only shaped by the competition, but which also helps shape the competition as the two interact",[47] then it has to develop a wider perspective that takes in the rest of the radio world. The culture of BBC governance must shape the culture of editorial management so that it relates its undoubted creative genius to an understanding of the market in which it operates, and the terms on which it competes. This requires a greater coherence in the definition and remits of these services, and some joined-up thinking between the BBC Governors and Ofcom, the regulators of commercial radio. If this is achieved, then the benefits to the viewer of digital radio will be even richer than they already promise to be.

47 Conditions and Approvals, September 2001.

9. Summary of Recommendations

BBC Asian Network

9.1 The BBC Governors should redraft the Asian Network's remit to encourage greater editorial ambition. This should form the basis of the new service licence as described in *Building Public Value*. The BBC should review its formats and set objectives to enhance the station's innovation. It should accentuate the difference and diversity of its programmes and programme formats from those of its competitors.

9.2 The BBC should consider relocating the Asian Network's operations to a single site, possibly in Birmingham. This would help it to make the final transition from a regional station to a national one.

9.3 The Asian Network should feature regular current affairs documentary programmes, similar to those on 1Xtra, tackling stories and issues affecting Britain's Asian communities.

9.4 The Asian Network should be better integrated into BBC radio management structures in order to access support in its editorial development. This would involve furthering the training and development of the station's journalistic staff. The BBC should consider how to increase the role of BBC news in the journalism of the Asian Network.

9.5 The Asian Network should take measurable steps to tackle the perceived inequality in the treatment of different Asian communities. It should review its range of language broadcasts to include at least one language from South India or Sri Lanka.

9.6 In its implementation of *Building Public Value* the BBC, in reviewing the Asian Network's relationship to the commercial market, should seek to understand the very specific conditions of the Asian advertising market and frame its own objectives to minimise the commercial disadvantage to the Asian commercial stations.

1Xtra

9.7 The BBC should set targets for the percentage of British acts being played on 1Xtra in order to maintain its distinctiveness from the commercial stations. It should institute similar targets for new and UK music played in primetime slots. These figures should be based on the station's performance over the past two years.

9.8 Rather than increase its percentage of speech programming, 1Xtra should consider new formats to allow for speech to find its way into the schedule at different times of the day and week. It should increase the amount, and the impact, of its social action programming.

9.9 The BBC should encourage staff on 1Xtra to find their way into other areas of the BBC to help improve the BBC's own multicultural make-up.

9.10 The BBC should further consider how to meet the needs of those Black audiences, such as elderly Afro-Caribbean and African communities, not served by 1Xtra's remit.

6 Music

9.11 The BBC Governors should redraft a more detailed service remit that accurately describes the character of the station. This should form the basis of the new service licence as described in *Building Public Value*. It must be clearer about the balance between contemporary and archive music to be played. It should define this quantitatively and the figures should be based on the station's performance in the first two years of its transmission.

9.12 There should be a clearer definition of the different speech genres which 6 Music broadcasts, and the number of hours planned per week.

BBC 7

Archive sales

9.13 The BBC Radio Archive should be available to commercial purchasers. There should be guidelines drawn up and agreed by DCMS on those circumstances where the BBC can justify refusing to sell archive that it has no current plans to transmit. It must be able to show it has clear and realisable plans for its use if it is not to make it available for sale.

9.14 In planning any future services, which may be predominantly archive-based, the BBC should, in future, examine the basis on which it could consider a joint venture with the commercial radio sector.

9.15 When drawing up remits and licences for BBC services, the Governors should take account not just of market impact issues, but also of the benefits of public service competition.

Children's services

9.16 The BBC should be encouraged to increase the amount of original programming on BBC 7 and, as the audience appetite for its children's radio services becomes clearer, consider increasing investment and hours broadcast.

Five Live Sports Extra

9.17 The DCMS should appoint a suitably qualified expert or organisation to have access, on a confidential basis, to information on BBC sports rights contracts. S/he should review the BBC's strategy for, and approach to, sports rights negotiations and the processes that the Corporation has in place to ensure that it does not pay significantly more than the market rate.

9.18 Sports Extra, while staying within its remit not to buy additional rights solely for its use, should be encouraged to increase its coverage of minority sports which will not be covered by commercial radio.

Governance

9.19 The Governors, in order to provide "an analysis of distinctiveness" as instructed by the Secretary of State, should specifically include analysis of each service in relation to the rest of the market. The Governors will need additional resources to be able to make this judgement effectively.

9.20 The BBC and Ofcom should establish an agreed framework for quantifying the potential market impact of any BBC service. The two bodies should also meet periodically to consider wider issues of market significance.

9.21 The Governors should encourage BBC management to build on the co-operation in the DRDB and establish a forum that discusses the wider relationship between BBC radio and the commercial sector.

Service Licences

9.22 The BBC digital radio services should, in the service licences issued by the BBC Governors, have measurable targets similar to those set out in format agreements authorised by the Radio Authority (now Ofcom) to commercial radio stations. The BBC licences should be drawn up with reference in part to their competitor commercial stations. This will allow clear points of measurable differentiation to be established.

9.23 Targets for the broadcast of speech, currently expressed solely in broad percentage terms, should also express more accurately the editorial range and ambitions of the programmes.

9.24 The position of the BBC within the wider radio market should be subject to quinquennial review by the BBC Governors and by Ofcom alongside the overall review of public service broadcasting.

Future Development

9.25 The BBC should set out its strategy on the potential use of its content on DAB data services. This is another area where formal discussions between Ofcom and the BBC Governors should take place.

8.26 The BBC should ensure that it continues to extend the reach of its multiplex beyond the current reach of 85%.

Appendix 10.1

BBC digital radio costs

10.1.1 Total costs

BBC Digital Radio Services £000	**03/04** Actual
BBC Asian Network	5,826
1Xtra	6,342
6 Music	5,575
BBC 7	5,712
Five Live Sports Extra	2,379
Total Cost	**25,834**

2003/04 was the first financial year in which all the new services operated for a full 12 months. The figures above are further divided below into Direct/Indirect Programme Costs, Copyright, Audience Research & Marketing, and Transmission. Only Direct and Indirect Programme Costs have been given for all financial periods. The other categories are post year-end allocations of cost from other areas of the BBC; for this reason, current year budgets were not available, and prior years were not comparable due to the differing lengths of time that each service has been on air.

Definition of costs

Direct Programme Costs represent the direct cost of staff, talent, resources and production management in producing a programme either in-house or via an independent producer. These are further analysed under the genre analysis.

Indirect Programme Costs include presentation, commissioning and scheduling activity, network management costs and divisional support costs held centrally and used by all output areas.

Copyright covers the costs of the Performing Rights Society, Phonographic Performance Ltd, Mechanical Copyright Protection Society and other copyright costs incurred by radio. Increases are driven by RPI and increased listeners calculated using the RAJAR results.

Audience Research Marketing costs include the central BBC costs allocated to radio each year to cover marketing activities, including RAJAR costs, audience research, audience helplines and press support. Marketing costs are allocated on the basis of specific campaigns, plus an allocation for BBC-wide campaigns.

Transmission Costs are the approximate costs incurred for the transmission and distribution of the services on the following digital platforms – satellite (including coding and multiplexing, network adaptation, uplinking, transponder capacity and EPG charges), DTT (including coding and multiplexing, transmission and common platform costs, and DAB (national DAB multiplex including transmission costs and programme distribution costs, allocated pro-rata to bandwidth)

The cost of each output area excludes corporate overheads which are paid for centrally and cover the central costs of the BBC (eg DG's office, Corporate Finance, Policy & Planning, Legal and Secretariat).

10.1.2 Analysis by service

BBC Asian Network **£000**	**01/02** Actual	**02/03** Actual	**03/04** Actual	**04/05** Budget
Direct Programme Costs	1,332	3,122	4,209	5,424
Indirect Programme Costs	120	765	689	316
	1,452	3,887	4,898	5,740
Copyright			387	
Audience Research & Marketing			213	
Transmission			328	
Total Cost			**5,826**	

1Xtra **£000**	**01/02** Actual	**02/03** Actual	**03/04** Actual	**04/05** Budget
Direct Programme Costs	–	4,092	5,223	6,050
Indirect Programme Costs	–	256	118	150
	–	4,348	5,341	6,200
Copyright			96	
Audience Research & Marketing			80	
Transmission			825	
Total Cost			**6,342**	

6 Music £000	**01/02** Actual	**02/03** Actual	**03/04** Actual	**04/05** Budget
Direct Programme Costs	–	4,062	4,199	4,392
Indirect Programme Costs	–	474	330	394
	–	4,536	4,529	4,786
Copyright			98	
Audience Research & Marketing			418	
Transmission			530	
Total Cost per Network			**5,575**	

BBC 7 £000	**01/02** Actual	**02/03** Actual	**03/04** Actual	**04/05** Budget
Direct Programme Costs	–	2,834	3,184	3,650
Indirect Programme Costs	–	541	1,301	1,397
	–	3,375	4,485	5,047
Copyright			25	
Audience Research & Marketing			514	
Transmission			688	
Total Cost			**5,712**	

Five Live Sports Extra £000	**01/02** Actual	**02/03** Actual	**03/04** Actual	**04/05** Budget
Direct Programme Costs	–	1,739	1,606	1,647
Indirect Programme Costs	–	34	136	96
	–	1,773	1,742	1,743
Copyright			–	
Audience Research & Marketing			359	
Transmission			278	
Total Cost			**2,379**	

As a point of comparison, BBC London had combined Direct/Indirect Programme Costs in 2003/04 of £5.2 million.

10.1.3 Genre analysis for year ending 31 March 2004

Genre	Five Live Sports Extra		6 Music		1Xtra	
	Hours	£000	Hours	£000	Hours	£000
Music			8,147	3,765	7,840	3,207
News and weather			370	387	292	1,359
Sport	1,089	1,606			76	209
Factual			9			
Current Affairs					430	448
Drama						
Arts						
Entertainment						
Religion						
Schools						
Leisure						
Childrens						
Presentation			266	47	146	0
Total	**1,089**	**1,606**	**8,792**	**4,199**	**8,784**	**5,223**

Genre	BBC 7		Asian Network	
	Hours	£000	Hours	£000
Music			3,094	2,010
News and weather			1,344	761
Sport			351	206
Factual			8	5
Current Affairs			1,690	957
Drama	3,328	444		
Arts				
Entertainment	2,852	185	65	37
Religion			286	172
Schools				
Leisure				
Childrens	1,464	2,555		
Presentation			208	61
Total	**7,644**	**3,184**	**7,046**	**4,209**

10.1.4 Additional information

During the course of the interviews with the Asian network and 6 Music, various other figures were asked for. These are provided below.

6 Music

- Actual cost of all events and live music in 2003-04 was £105,712.
- Live music and events represented 2.3% of the total spend.

Asian Network

- The proportion of total spend on live music and events is 3.3%.

The musical genres on 6 Music and the Asian Network are as follows (week 17^{th}-23^{rd} July):

6 Music

Alternative/Indie	41%
Adult Pop	21%
Rock	12%
Funk/Soul	10%
Dance	7%
Reggae/Ska	3%
Classic Pop	2%
Rap	2%
Blues	1%
World Music	1%

BBC Asian Network*

Bollywood	39%
Lollywood	8%
Punjabi/South Asian	6%
South Asian Pop	7%
Bhangra/British Asian	27%
Live	1%
Religious	13%

* Due to adjustment of decimal points figures do not total 100%.

Appendix 10.2

Commercial digital radio costs

	Digital/technical transmission cost		Digital marketing cost		Digital content cost		Analogue/technical transmission cost (For services simulcast on analogue and digital)		Analogue marketing cost (For services simulcast on analogue and digital)		Analogue content cost (For services simulcast on analogue and digital)		Total fees paid for places on relevant multiplexes in the last complete financial year
	Actual year ended 2003	Projected year ended 2004	Actual year ended 2003	Projected year ended 2004	Actual year ended 2003	Projected year ended 2004	Actual year ended 2003	Projected year ended 2004	Actual year ended 2003	Projected year ended 2004	Actual year ended 2003	Projected year ended 2004	
Choice FM	£508,000	£351,000	£0	£0	£0	£0	£105,000	£118,000	£96,000	£137,000	£364,000	£600,000	£351,000
Classic FM	£1,086,000	£1,157,000	£0	£0	£0	£0	£3,001,000	£3,255,000	£973,000	£606,000	£1,276,000	£1,296,000	£1,134,000
Galaxy	£461,000	£654,000					£567,000	£584,000	£1,283,000	£1,409,000	£1,612,000	£1,635,000	£400,000
Kerrang	£50,000	£400,000	£30,000	£50,000	£5,000	£25,000	£0	£80,000	£0	£700,000	£0	£800,000	£350,000
Kiss	£1,000,000	£1,100,000	£30,000	£50,000	£5,000	£20,000	£80,000	£90,000	£1,000,000	£1,000,000	£1,000,000	£1,150,000	£1,000,000
Life	£826,000	£914,000	£0	£0	£106,000	£210,000	£0	£0	£0	£0	£0	£0	£900,000
Oneword	£437,000	£437,000	£70,000	£42,000	£375,000	£225,000							£275,000
Sunrise	£302,639	£318,141	£15,000	£50,000	£100,000	£120,000	£137,498	£162,000	£97,111	£170,000	£227,034	£250,000	£286,327
The Arrow	£596,000	£692,000			£145,000	£154,000							£580,000
Xfm	£1,393,000	£1,631,000	£0	£0	£0	£0	£151,000	£152,000	£1,058,000	£522,000	£1,739,000	£1,763,000	£1,631,000
Yarr	£159,980	£226,447	£15,000	£50,000	£38,384	£48,500							£203,802
TOTAL	£6,819,619	£7,880,588	£160,000	£242,000	£774,384	£802,500	£4,041,498	£4,441,000	£4,507,111	£4,544,000	£6,218,034	£7,494,000	£7,111,129

% radio operating profit reinvested into digital radio in the last four years:

	2000	2001	2002	2003
Capital	2.8%	8.1%	9.9%	16.2%
Chrysalis	Nil	7.9%	15.9%	20.9%
Emap	n/a	9.5%	16.0%	23.6%
GWR	10.1%	10.2%	17.2%	24.2%

Appendix 10.3

Briefing note on BBC Governors' oversight of the digital television and radio services

This note is in addition to the BBC's submissions to the Secretary of State which give details of the Governors' oversight since 2000.

Introduction

The Governors have reviewed the digital services and other relevant areas (such as the BBC's role in digital switchover, Freeview and the Freesat strategy) on a regular basis since proposals for new services were first developed in 1998.

The Governors' role is to ensure that the services:

- Help the BBC to fulfil its purposes as a public service broadcaster
- Offer value for money to the licence payer
- Appeal to licence payers

Governors have been fully aware of those instances where services have not fully met their conditions of consent and drew attention to these in their Foreword to the BBC's submission to the current DCMS review.

Approval of the services

Governors first reviewed the BBC's plans to develop digital radio and TV services as part of the submission to the 1999 Review of Future Funding.

In early 2000, when the licence fee settlement had been announced, properly defined proposals for the new radio and TV services were developed by management, including projected costs. Governors questioned management on strategic issues relating to the proposals, including availability of relevant technologies, consumer demand for the new services and their projected impact on the commercial market. They then gave approval for management to proceed to public consultation on the services. After reviewing the results of the consultation, Governors gave approval for service proposals to be finalised and submitted to the Secretary of State for approval in December 2000. After consent was given by the Secretary of State, BBC management had responsibility to prepare services for launch.

Value for money

Projected budgets for the new radio and TV services were submitted to Governors with the service proposals (see above) and to the Secretary of State when consent was sought. **The Secretary of State gave approval to the proposed budgets for each radio and TV service.**

Governors approved a significantly larger budget for BBC Three than for the other TV channels, for two main reasons: the service aimed to reach a larger audience than any other new service and its proposed focus was on original comedy and drama, which have much higher costs per hour than factual or children's programming.

Since the launch of the services, Governors have reviewed their value for money at regular intervals, as part of overall performance monitoring. This led to the decision that BBC Four's budget should increase, in order that it could invest in originated comedy and drama and seek to widen its reach.

Governors have recently committed to commission independent qualitative and quantitative research in early 2005 to judge the effectiveness of the channels at delivering value to the licence payer. The results of the extra investment in BBC Four will be monitored to ensure that the new audiences justify the extra investment.

The budget for each service will be a central part of the planned Service Licences which were announced in *Building Public Value.*

Delivering public purposes

Governors' oversight of the BBC's new services is within the strategic framework of the BBC's purposes.

In order to increase transparency and accountability, the Governors announced six criteria which they would use to assess BBC public services in the 1999/2000 Annual Report & Accounts. The criteria were that services should:

- provide high quality programmes or content
- uphold the BBC's editorial values
- offer a distinctive mix of programming or content
- contribute to the achievement of the BBC's public objectives (see below)

- demonstrate public value or appeal to licence payers
- be free at the point of use and universally accessible.

Following the licence fee settlement in 2000, one of the main objectives of the new services was to enable the BBC to play a key role in driving take-up of digital platforms. This was also a key factor behind the BBC's decision to become involved in the digital terrestrial platform which Governors approved after lengthy consideration.

Monitoring of the services against their remits

The Board of Governors has reviewed the performance of each of the new radio and TV services prior to this review. They have also been considered within the context of regular strategy healthchecks of BBC Radio and BBC Television.

Statements of Programming Policy

The Governors use Statements of Programming Policy (SoPPs) to review all services' performance on an annual basis. This goes beyond the requirement of the Communications Act to publish SoPPs for just the public service television channels.

Governors are assisted in performance monitoring by their team of advisors (Performance & Accountability) who scrutinise the draft SoPPs for the coming year against the service commitments and agreed service strategies. This work informs Governors' discussions with management before the SoPPs are finalised. Governors' other performance monitoring work during the year feeds into the relevant SoPPs (eg Their Arts work in 2003 fed into BBC One and BBC Two SoPPs for 2004/5).

Each service's performance against its SoPP is reported to Governors at the half and full year. Governors request specific qualitative and quantitative measures to be used to inform their assessment of each service at the year end.

SoPPs have evolved to become more effective over time. For the current year, the Governors requested that the service remits should be defined more clearly and on a more factual basis, and that programming plans should be more clearly related to the service's stated purpose.

Annual objectives

Annual objectives are proposed by BBC management; they are discussed by the Board of Governors, amended where necessary, and then set by the Governors for management to fulfil. Governors monitor performance against objectives, with the help of their independent advisors (the Performance & Accountability team). Since the launch of the new digital services, there has been an annual objective related to them.

For 2003/4, the objective was to *"strengthen the BBC's digital services, with the aim of providing something of value for all digital audiences. In particular, provide a wide range of interactive learning opportunities and help to drive digital take-up by extending the availability of the services and focusing on cross-channel commissioning and scheduling."* Governors' assessment of performance against this objective for the past year was that *"sound progress has been made in helping to drive digital take-up and there is evidence that the digital services' output has been strengthened, but continued scrutiny will be necessary for us to ensure that the new services are offering good value for money."* (Further details of Governors' assessment of performance are in the Annual Report & Accounts.)

For the BBC's submission to the Secretary of State for this review, the Governors oversaw the monitoring of the services, including the independent market impact study. The Governors' Foreword highlighted the instances where the services had not met their conditions for consent or other commitments.

Impact within the BBC radio and TV portfolios

Governors have reviewed the strategy and performance of the digital services within the context of the BBC's television and radio service portfolios. For example:

- The Board reviewed BBC Television's strategy in 2000 and 2002. A new strategy was recommended for BBC Two (which is now being implemented) in the context of the performance of BBC Three and BBC Four

- Similarly, as digital radio take-up has been slower than anticipated and 1Xtra has a lower than projected reach, a new Radio 1 strategy was approved in May 2003.

Future plans for monitoring

In its Charter review submission, *Building Public Value*, the Governors state their plans to introduce a new framework of transparent scrutiny of the BBC's services by using Service Licences, the public value test and public surveys. These tools will be developed and implemented as soon as possible.

Accountability

The Governors have not carried out any accountability initiatives specifically relating to the digital services, due to their relatively recent launch and, in particular, the low take-up of digital radio.

But the digital services are now included, wherever possible, in Governors' accountability events. For example, in January 2004, a Regional Advisory Council event for Asian audiences included consultation on the Asian Network; in December 2003, Governors' accountability work on the Arts included the impact of BBC Four.

One of the objectives set by Governors for 2004/5 is to drive the market for free-to-air digital television, digital radio and new media. This includes a commitment to take account of audience approval of the BBC digital services on all platforms.

Independent advice

Reforms made to governance, following Gavyn Davies' appointment as Chairman, resulted in the establishment of a Governance & Accountability unit in April 2002 to replace the Secretary's Office. This included, for the first time, a Performance & Accountability team to provide dedicated support to the Governors in their monitoring of the BBC's performance against objectives, compliance with remits, SoPPs and DCMS conditions of consent and reviews of individual genres and services which are identified as strategic priorities.

The changes outlined in *Building Public Value* and which are already being put into place include a major expansion of the provision of independent advice to the Governors:

- A distinct and adequately resourced Governance Unit will be created which provides a range of independent expertise to the Board
- Governors' use of the Public Value Test will include an independent assessment of potential market impact (see below)
- Governors will collaborate more with other regulatory bodies, particularly Ofcom, on whose expertise they will seek to draw, especially in the area of market impact.

Market impact

Governors have not commissioned any independent advice on the market impact of the new digital services, although they have reviewed BBC management's independent market impact studies.

Appendix 10.4

Station formats for Xfm and Choice FM

Xfm STATION FORMAT

Licence Outline

Station Name	Xfm
Licence Area	Greater London (as defined in the Radio Authority's Measured Coverage Area map)
Frequency	104.9 MHz
Service Duration	24 hours a day (at least 16 hours locally produced/presented)

Definitions

Speech	"Speech" excludes advertising, programme/promotional trails & sponsor credits, and may be calculated over any four hours.
Music Percentages	Any music percentages are calculated as a percentage of the total tracks broadcast in the period specified.
Peaktime(s)	"Peaktime(s)" refers to Weekday Breakfast and Afternoon Drivetime output, and Weekend Late Breakfast.
Daytime	"Daytime" refers to 0600 to 1900 weekdays, and weekend output from 0800 to 1400.
Locally produced/presented	Production and presentation from within the licence area. All requirements for locally produced/presented output must include peaktime.

Character of Service

Xfm WILL BE TARGETED AT 15-34 YEAR-OLD LONDON LISTENERS, PROVIDING A SPECIALIST MUSIC FORMAT OF "ALTERNATIVE ROCK", BEST DEFINED AS MODERN ROCK WITH ATTITUDE, FEATURING ARTISTS GENERALLY OUTSIDE THE MAINSTREAM.

Detail

Tracks and artists featured will generally be groundbreaking "alternative" artists, innovative, youthful, generally guitar-led. Output will not be expected to have much overlap with other, more mainstream stations, or become chart-hit oriented (whether past or present charts).

Up to 50% of the output will be current popular alternatives (from the last two months), with the rest of programming made up of breakthrough tracks from the previous fortnight, classic alternatives and "roots" tracks which played a part in alternative evolution. None of those categories should exceed 30% of the output.

Daily programming will contain whats-on information, news about bands, a full weekly alternative rock review programme, and at at least three weekly "live" sessions (each at least 15 minutes) commissioned for Xfm. At least four bulletins a day weekdays and three weekends should contain relevant local/regional news tailored to the tastes of the target audience. National news will feature at other times. Sport is seen as a key interest to the target audience and a music/sport mix on Saturdays may be aired.

AL196-1(7/9/00)

CHOICE FM STATION FORMAT

Licence Outline

Station Name	Choice FM
Licence Area	Brixton area (as defined in the Radio Authority's Measured Coverage Area map)
Frequency	96.9 MHz
Service Duration	24 hours a day (all locally produced/presented)

Definitions

Speech	"Speech" excludes advertising, programme/promotional trails & sponsor credits, and may be calculated over any four hours.
Music Percentages	Any music percentages are calculated as a percentage of the total tracks broadcast in the period specified.
Peaktime(s)	"Peaktime(s)" refers to Weekday Breakfast and Afternoon Drivetime output, and Weekend Late Breakfast.
Daytime	"Daytime" refers to 0600 to 1900 weekdays, and weekend output from 0800 to 1400.
Locally produced/presented	Production and presentation from within the licence area. All requirements for locally produced/presented output must include peaktime.

Character of Service

CHOICE FM IS A MUSIC, NEWS AND INFORMATION SERVICE PRIMARILY FOR LISTENERS OF AFRICAN AND AFRO-CARIBBEAN ORIGIN IN THE BRIXTON AREA, BUT WITH CROSS-OVER APPEAL TO YOUNG WHITE FANS OF URBAN CONTEMPORARY BLACK MUSIC.

Detail

Speech is an important part of the content but will not usually rise above 30% of the output. It will highlight community news with other information of relevance and interest to the target audience.

News bulletins containing local news will be run at least during peaktime. National news will feature at other times. Music will be predominantly of black origin, consisting of a mix of Soul, Soul-influenced Currents, Reggae/Ragga and R&B and may include a proportion of Gospel, Rap and Caribbean music. Soul-influenced currents (from the top 40) should never account for more than 30% of the music output.

Other specialist music programmes which complement the main music streams can run in non-daytime. These may include Reggae, House/Garage (to a maximum of 8 hours a week), Hip Hop/Jazz, Funk, Gospel and Soca/African.

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