

## **Governors' Foreword**

In preparation for the Secretary of State's review of its digital services, BBC management has carried out an extensive study of their performance against the principal criteria established by her. This has included the commissioning of an independent report on their market impact.

Having reviewed this programme of work with the assistance of its team of independent advisers, the Board of Governors has concluded that there is strong evidence to show that the services have made a significant contribution to digital take-up, while at the same time offering distinctive programming to audiences. What is more, there is also good evidence to suggest that they have had a beneficial impact on the market overall which outweighs the limited negative impact they have had in some cases on the revenues of commercial operators. It remains early days however, and despite encouraging progress the services still require more time to show the full extent to which they can meet audience needs. The Governors will continue to scrutinise their performance to ensure that they deliver distinctive programming of value to audiences that represents good value for money.

This Governors' Foreword has three purposes:

1. To describe the context in which the BBC applied for approval to set up four new digital television channels and five new radio stations
2. To provide a high level commentary on the performance of the services to date, indicating both notable achievements and key issues for the future
3. To explain how the Board of Governors has monitored performance and intends to do so in the future.

### **1. The Context for the Approvals**

#### **The BBC's digital services were designed to help drive digital take-up, create public value and extend the reach of public service broadcasting**

When Chris Smith, the then Secretary of State for Culture, Media and Sport, announced the results of the BBC funding review in February of 2000 he made it clear that the BBC had a key role to play in driving the take-up of digital services with the provision of what he described as "*a strong and distinctive schedule of benchmark quality programmes.*" In particular he noted that without the BBC's intervention there was a major risk that the penetration of digital television could end up being capped at around 50-60% of the population. Accordingly, the licence fee settlement was made in part conditional upon the BBC creating a suite of digital services.

The BBC's commitment to the new services was also driven by a strong belief in their ability to create public value. In particular their distinctive, public service schedules would offer greater choice to the consumer. And in reaching out to audiences such as the young and ethnic minorities they would help reconnect these key audience groups with public service broadcasting. As Tessa Jowell, the current Secretary of State for Culture, Media and Sport noted when she approved the new services:

*“...the new stations should attract a wider range of viewers to all digital services. This can only be good news for all broadcasters and for the viewer and listener. Not all games are zero sum; sometimes everyone can win.”*

When approving the services the Secretary of State announced that their performance would be subject to external review. Although it is very early days and there are many challenges yet to be met the Governors believe, on the basis of their own assessment, that the performance of the BBC's new digital services to date suggests that there were good grounds for the Secretary of State's optimism.

## **2. Performance to Date**

### **There is strong evidence to suggest that the services have made a major contribution to digital take-up**

The BBC commissioned the independent consultancy Oliver and Ohlbaum to review the overall market impact of its digital television and radio services. The Oliver and Ohlbaum report concludes that the BBC's services seem to have been an important driver in recent free to air digital TV growth, which has increased from 0.5 million to about 3 million over the last 2 years. The report concludes that this has been achieved without cannibalising the pay TV market.

Two thirds of the approximately 3 million households receiving free to air digital television do so through Freeview. Consumer research and consumption patterns suggest that it is the BBC's services which have been a key reason for both the overall increase in take-up and the rapid adoption of Freeview.

BBC radio services – particularly BBC 7, BBC Five Live Sports Extra and BBC 6 Music – feature prominently as reasons for consumers buying DAB radio sets. The platform is growing strongly and now looks to be on the verge of a high growth phase. It is notable that the BBC's key role in promoting digital radio and cooperating with commercial DAB providers and DAB set manufacturers is widely recognised as one of the key drivers behind the rapid take-up of the platform. Oliver and Ohlbaum's report concludes that overall the BBC's services have played a vital role in driving digital penetration through DAB and other platforms, including Freeview.

This evidence of the BBC's contribution towards a strong digital market led the Governors to conclude that one of the principal reasons behind the Government's approval of these services is being justified by the actions of consumers, manufacturers and commercial competitors.

### **The BBC's services are distinctive when compared to commercial offerings and are consistent with the Corporation's public purposes**

Oliver and Ohlbaum also carried out detailed research into the distinctiveness of the BBC's new services. The Governors welcome the findings that the BBC has met the challenge to come to the emerging digital market with offerings that are complementary to those of commercial competitors. In particular the report notes the television channels' high levels of UK sourcing and origination in contrast to their competitors.

BBC Three has succeeded in finding a distinct audience (30-34 year olds, skewed ABC1) which, the report shows, it is serving with a schedule comprising far more news, current affairs, factual programming and domestically originated drama and entertainment than its competitors. The Governors note the report's observation that celebrity, relationship and lifestyle content dominate the channel's factual entertainment output and that this veers into competitor territory. Action is already being undertaken to address this. The celebrity-focused Liquid News is being phased out and the current 15 minute 7 o'clock news bulletin will be replaced with a 30 minute nightly news analysis programme which will build on the success the channel has already enjoyed with Current Affairs. The successful 60 second news bulletin will remain. The Governors acknowledge that BBC Three's output is controversial in the eyes of some observers precisely because it is attempting to present key aspects of public service broadcasting in new ways that are appealing to a young audience. As such, BBC Three is by its nature an innovative service and its success in achieving the aim of reconnecting its target audience with public service broadcasting is too early to judge, just one year after its launch.

BBC Four seems also to have found a distinct ABC1 audience that tends to be a little younger than that of many factual channels. It offers a range of programmes and genres unmatched by any of its rivals, combining performance and arts output with drama, news and current affairs. The report also finds that its range of factual programming is wider than that of any individual factual channel.

Both CBeebies and The CBBC Channel succeed in offering schedules that are more varied than their competitors, relying as they do less on cartoons and offering far more educational content. Oliver and Ohlbaum found that only one channel – Discovery Kids - exceeded The CBBC Channel in its proportion of educational content. Unlike the CBBC Channel however, this content was sourced largely from overseas, mostly the USA.

In its analysis of the digital radio services, Oliver and Ohlbaum conclude that the new BBC services offer something distinctive in terms of either their mix of output or their target demographic or both. For instance, BBC 6 Music caters for already well-served 25-40 year old contemporary music lovers but with a playlist that is much less hit-driven than its rivals and with a strong commitment to both UK artists and new live performance. This combined with music documentaries, social action campaigns and news make it a highly distinctive offering. Likewise BBC 1Xtra has entered what looks to be a well-served marketplace (at least in some parts of the country) but has done so with a differentiated commitment to contemporary black music that includes significant elements of speech and features aimed at a young audience. The Governors note in particular the station's commitment to news and current affairs with regular news bulletins and TX Unlimited, a 2 hour programme which broadcasts every weekday in the early evening.

The BBC Asian Network is differentiated from its rivals by its high level of commitment to speech (which accounts for 58% of its output), in particular News and Current Affairs and its strong promotion of British Asian music talent. Its main competitors feature largely music and phone-ins. It is primarily focused on the young Asian population, while also providing programmes of interest to older British Asians.

Of all the services BBC 7 has a commercial competitor (OneWord) that – on the surface at least – has similar output including narrative speech programming with a focus on drama and comedy. However, detailed analysis shows that BBC 7 has a considerably more

variegated mix of programmes in terms of both genres and formats. Initial data suggests that BBC 7 is succeeding in one of its key aims, which is to attract children to its output, which includes a 2 hour live show every day. BBC Five Live Sports Extra helps to relieve “bottlenecks” in the sporting calendar when events clash and so enhances audience choice and has become the digital home for test match cricket. In allowing for further access to sports rights the BBC already owns it represents additional value for licence fee payers, as do BBC 6 Music and BBC 7 with their extensive use of archive material.

Overall then there is good evidence that the BBC is providing a distinctive offering in both the Radio and Television markets. What is more, as the BBC’s own analysis makes clear, the output is consistent with the Corporation’s public purposes.

### **There are promising signs that the services are proving attractive to their target audiences**

Of the four television channels CBeebies has been a success from the very start. The others are taking longer to establish themselves. In particular the Governors note that:

- **CBeebies** is the most watched children’s channel and reaches nearly a million viewers a week. What is particularly pleasing is the very positive press it has received from commentators and more particularly the viewing public who clearly value it for its safe, educational content and high element of UK programming
- **The CBBC Channel** had a slow start and initially struggled to communicate its mixed genre offering to a wide-ranging audience of 6-12 year olds. Over the past year however The CBBC Channel has improved its performance and now commands a significant share of children’s viewing in digital homes with a distinctive offering of UK originated output
- **BBC Three** has also begun to improve its position after a slower start than anticipated and is now one of the three most watched digital only channels for young adults in the UK. It is still too reliant on the output of other channels (such as BBC One’s EastEnders) in attracting audiences, particularly given its high levels of investment in drama and comedy originations. However, the Governors recognise that the channel is operating a policy of using such programming to bring audiences to its own originated output and plans to reduce the prominence of programming from BBC One and Two over time. Overall they regard it as a bold attempt at reconnecting young audiences with public service broadcasting and as such it deserves to be given its chance to succeed
- **BBC Four** has recently shown marked signs of improvement in its performance amongst its target audience to become the most watched channel of its kind. The Governors have taken note of the very positive press reviews and the obvious value placed upon it by its viewers when questioned in focus group research. The channel needs to make further progress in appealing to that wider audience which has not yet made the transition to digital television. This must be achieved without diluting the key elements of its unique proposition and while the commitment to more thoughtful, challenging programming on the analogue channels, particularly BBC Two is further strengthened.

It is too early to draw even preliminary conclusions about the performance of the new radio services given that four of the five networks only have two sets of official audience data to date. However, the Governors are encouraged to note the following:

- Initial indications suggest that the services are building unique reach – in other words, they are attracting both adults and children that do not listen to any of the other national BBC networks
- They are attracting young people and ethnic minorities. The average age of listeners coming to BBC Radio only for the new services is 30 compared to 42 across all BBC Network Radio. Nearly three quarters of those coming to BBC Radio only for the new services are from ethnic minorities.
- They are already achieving high approval scores, all of them higher than the overall BBC approval score

### **The services have met their consent conditions and commitments in almost all cases**

The Governors have monitored the performance of the services against their consent conditions and commitments closely. They are of the view that they have been met in almost all cases, with the following principal exceptions:

- The higher than expected cost of co-production has made it difficult for both CBeebies and the CBBC Channel to meet the commitment requiring them to invest directly in animation co-production or exploit new opportunities for co-production and third party investments. However, the alternative approach of pre-buying has allowed the channels to take an editorial stake in high quality, UK animation which represents better value for money
- CBeebies has been unable to carry information for parents and carers on its interactive enhanced-text service. This has been due to the currently limited capacity of the technology available. To date therefore this content has been delivered via the online service. However, CBeebies is committed to providing information for parents and carers on its interactive enhanced-text service in 2004/5
- The condition that the launch of CBeebies should not be developed at the expense of programmes catering for pre-school children on BBC One and BBC Two has been compromised by a reduction in the hours of children's programming on those channels. However, this has been largely caused by changes to parliamentary scheduling which are outside the BBC's control
- BBC 1Xtra has taken time to meet the condition that "around 10%" of its output should cover news, documentaries and social action programming. Although this programming accounts for 9.7% of its total output in 2003/4, further work is needed to ensure that this level is maintained, if not exceeded in future. The Governors also note 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

### **Overall, evidence suggests that the BBC's services are having a positive effect on the market**

Taken together the Oliver and Ohlbaum market impact study and the BBC's assessment of its performance show that the digital television channels have had a positive impact on the market in three main ways:

- They have demonstrably helped drive digital take-up and therefore helped bring forward the date of analogue switch off
- They have helped create public value by offering distinctive, multi-genre schedules based on UK sourced content which is supportive of the BBC's public purposes

- They have made a significant contribution to the UK production base

On this last point the Governors note in particular that Oliver and Ohlbaum estimate that the £150m the BBC spends on originated programming for the 4 new BBC channels represents more than double the level of new programming investment by the 140 basic and free to air thematic channels (excluding news and sports production). Already the new BBC channels have played an important role in encouraging and introducing new talent both on and off screen, most notably BBC Three in the field of comedy and animation. BBC 4's investment in UK and world music is also notable. It is hoped that in time the BBC's commitment will stimulate greater investment by the commercial sector.

The Oliver and Ohlbaum report further estimates that the four new BBC digital television channels have resulted in a combined reduction of between £4m and £10m in commercial channel revenue. This represents between 1% and 2.5% of current advertising revenue for the rival thematic channels and between 0.08% and 0.2% of current advertising revenue for the commercial networks. It further estimates that should their combined share rise to 3.2% over the next three years there will be an additional £6m-£15m impact a year in total. The Oliver and Ohlbaum report concludes that the historic direct financial impact on the thematic channels has been modest. The Governors believe that given the positive impact that the channels have had in other ways it can be reasonably argued that they are having, overall, a beneficial impact on the digital TV market.

Oliver and Ohlbaum estimate that the BBC's digital radio services have had a net positive market impact of £2.9m per year and that this is likely to increase over the next few years to £12m per year. Although the report concludes that for a small number of services (likely to include OneWord and some stations in the BBC 6 Music market segment) the net impact may still be negative, the BBC is unlikely to be the key driver of success or failure for those services.

As with the television services, this overall impact on the economics of the market needs to be seen in the context of the new radio services' undoubted contribution to the take-up of digital radio, their creation of public value through their distinctive programming mix and their contribution to the production base. The Governors note in particular Oliver and Ohlbaum's observation that the BBC's investment of £17m per year on 5 new services compares favourably with the £7m invested by the commercial sector on 35 new digital services. BBC 1Xtra and the BBC Asian Network in particular are developing new talent, with the latter service investing around £1m a year in a new Asian soap.

Overall, the Governors believe there is strong evidence that the BBC's new digital services are having a beneficial impact on the new digital broadcasting market and will continue to do so.

### 3. Governance

**The services are now set to advance beyond their initial launch phases; meeting audience need and value for money will be key issues for the future**

Over the past four years the Board of Governors has been regularly involved in work that has determined the scale, scope and ambition of the digital services and has taken a particular interest in the question of their distinctiveness. The Board has discussed key

aspects of the digital services on 14 occasions since May 2000, including their initial strategies, public consultation, budgets and their relationship to the BBC's analogue services. Most recently, the Board has received detailed reports from the Executive on the performance of the services in preparation for this review. The services have also been central to four of the BBC's ten corporate objectives over the past two years and Governors have received briefings from their own team of advisors on how well they have helped to deliver those objectives.

The Governors believe that it is too early to form a definitive view as to the extent to which the new services will deliver long-term value for money to the licence fee payer. They will keep this under continuing scrutiny and will report on it as part of the annual reporting process. The BBC sought approval for its new services on the basis that the levels of funding proposed were necessary in order to build audiences from scratch. This remains the case but inevitably, as the services mature and develop beyond their initial launch phase, the question of value for money will come more sharply into focus.

Meanwhile the Governors are persuaded that licence fee payer interests are best served by a prudent enhancement of BBC Four's budget, as there is good evidence to suggest that a richer diet of drama and comedy would enable the channel to appeal to a wider audience. However, the effects of this increased investment, which was endorsed by the Governors in their routine scrutiny of performance, will have to be monitored to ensure that the new audiences attracted to BBC Four justify the extra investment.

Looking ahead, this relationship between the services' performance in meeting audience need and the levels at which their budgets are set will become a key issue for Governors' scrutiny. The dynamics of the digital market place are such that simple cost-benefit measures such as cost per viewer hour will be insufficient to answer the value for money question. The BBC must, along with the rest of the industry, work at finding new ways of measuring the value that services deliver to audiences. This will be in addition to the continuing work of analysing performance against the key criteria that are discussed in this report – namely their ability to create public value with distinctive programming and schedules, their role in driving digital take-up and their contribution to the health and vitality of the UK production base. In noting management's plans for the future the Governors acknowledge the concern of commercial competitors about the need for an element of predictability in the way the BBC develops its services. These are entirely reasonable concerns which the Governors hope will be addressed to some extent by the BBC's annual Statements of Programme Policy as well as by the enclosed submissions. Meanwhile the Governors regard it as their job to ensure that the services continue to develop both within the parameters of their approval conditions and in ways that enhance the provision of quality programming within the digital TV market. In so doing, the BBC will help further drive the development of the market to the benefit of producers, broadcasters and above all, audiences.

Overall, the Governors believe that a promising start has been made and are committed to monitoring the services to ensure that they serve the public interest in the best possible way. To do this they will undertake their own qualitative and quantitative research on many of the questions outlined above. This will complement the work they are regularly engaged in with management on overall service performance, budgetary review and delivery against objectives.