



# Building public value

Renewing the BBC for a digital world

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# Chairman's prologue

The BBC does not have a monopoly on wisdom about its own future. This is a contribution to the debate over Charter renewal, not the last word. I look to a vigorous and informed public debate to produce the consensus about the future size, shape and mission of the BBC.

This document is itself a consensus, arrived at after a vigorous debate inside the BBC, and represents the considered views of Governors and management. Part II – our proposals on governance – is, of course, entirely the responsibility of the Governors.

At the heart of *Building public value* is a vision of a BBC that maintains the ideals of its founders, but a BBC renewed to deliver those ideals in a digital world. That world contains the potential for limitless individual consumer choice. But it also contains the possibility of broadcasting reduced to just another commodity, with profitability the sole measure of worth. A renewed BBC, placing the public interest before all else, will counterbalance that market-driven drift towards programme-making as a commodity. Only a secure and adequately funded BBC can ensure that broadcasting retains its cultural (in the broadest sense) aspiration.

Although we approach the debate over Charter renewal with an open mind, some key principles cannot be up for negotiation if the BBC is to remain recognisably the BBC. These are that the BBC must be available to everyone, deliver value to everyone and be open to everyone. The public interest must remain at the heart of all the BBC does. It must remain absolutely independent from political and commercial influence. And it must have the ability to invest for the long term, to incubate talent, to innovate and bear the risks that innovation brings.

I hope those who read this document find our ideas refreshing, stimulating and challenging. I look forward to hearing the responses and debating the issues raised.

This is your BBC. Help us renew it.

**Michael Grade, BBC Chairman  
June 2004**



# Overview and summary

The BBC's founders believed that broadcasting could make the world a better place. Public intervention would ensure that its astonishing creative power – to enrich individuals with knowledge, culture and information about their world, to build more cohesive communities, to engage the people of the UK and the whole globe in a new conversation about who we are and where we are going – would be put to work to the sole benefit of the public.

A new broadcasting infrastructure would be built and it would reach every household in the UK. The BBC would be funded and constituted so that it could invest in programmes of every sort. A new kind of cultural institution would be created, open and dynamic, as comfortable with the popular and everyday as with traditional high culture, yet still committed to the highest ideals – excellence, integrity, impartiality, creativity. In all these ways, the BBC would build public value.

Today we are living through advances in technology as momentous as the invention of radio and television. Some argue that these advances mean that the age of public value in broadcasting is over. Instead, they say, we should look forward to an era of private value and individual consumer choice in which a perfect new market in programmes and services will be created by subscription, encryption and other forms of competition and exclusion.

The BBC, however, believes that the potential – and the need – for public value in broadcasting has never been greater. Creating a fully digital Britain is a public challenge which the BBC must help to lead. It is a Britain from which the BBC, and only the BBC, can ensure that no one is excluded. It is a Britain where investment in British talent and British voices and the widest range of quality British content will be more important – and more at risk – than ever. Again only the BBC, with its unique method of funding and its unique mission, can guarantee that this investment will be made.

An economist might conclude from this that the BBC has an important role in preventing various kinds of market failure in the new digital world. Yes – but our vision is far bolder than that suggests. We look forward to a future where the public have access to a treasure-house of digital content, a store of value which spans media and platforms, develops and grows over time, which the public own and can freely use in perpetuity. A future where the historic one-way traffic of content from broadcaster to consumer evolves into a true creative dialogue in which the public are not passive audiences but active, inspired participants.

The digital world and the BBC's vision of its mission within it call for profound changes to the BBC as an organisation. It needs utter clarity about its values and about what its owners, the British public, expect from it. It must apply the test of public value to everything it does – its services, its commercial activities, its scope and scale. The public have a right to expect a very wide breadth of services and content in return for the licence fee, but the BBC's depth of vertical integration and in-house activity should be based on public rather than its own institutional priorities.

The public look to the BBC to provide some of the essentials of their daily lives. But while it must remain a great national institution, it should be as small as its mission allows.

For more than a decade, the BBC has striven with considerable success to reduce its costs and become more efficient. This work must intensify. The transition to a fully digital Britain will require substantial fresh investment – but any consideration of a new licence fee settlement for the BBC must begin with self-help and the extent to which new responsibilities can be funded by the better use of existing resources.

The digital world demands a more open, responsive BBC. A BBC which reflects the whole UK in its output and which significantly shifts its broadcasting, production and other operations out of London and into the rest of the UK. A BBC which embraces partnerships of every kind – with its audience, with the private sector, with other public institutions and interests. A BBC which expresses the diversity of a modern UK, among its audiences and stakeholders, on the air, within its staff. A BBC which meets its public face-to-face, both in more open local, regional and national centres but also in its services – services which, uniquely, can combine personal and local relevance with connectivity to the national and the global.

It also demands a BBC which begins with the premise that the licence payer is right and treats complaints and suggestions with the respect and seriousness they deserve. A BBC whose independence is guaranteed by strong independent governance – but governance which is separated from management and given the power and resource it needs to hold the BBC effectively to account. Historically the BBC has resisted criticism. And of course not all of the BBC's critics are right or even well-intentioned. But a responsive BBC should see itself the way others see it, and where it finds shortcomings put them right. Should it hesitate or fail, a reformed and empowered Board of Governors will make sure that it meets these standards.

If it is to build public value in the emerging digital world, the BBC must combine bold new strategies with enduring values. It must keep faith with existing audiences and their expectations yet discover a new spirit of reform and re-invention. In many ways, the new era calls for a new BBC.

## **The BBC and public value**

Broadcasting is a civic art. It is intrinsically public in ambition and effect. We may experience it individually, but it is never a purely private transaction. To turn on a TV or radio is to enter a communal space and to be constantly aware of and influenced by that fact. This shared experience may itself represent a significant public value – the communal glue which some call *social capital*. But that is only one of many potential wider benefits. A programme may make me more likely to vote, or to look at my neighbour in a new, more positive light. It may encourage both of us to spruce up our houses and improve our neighbourhood. A programme I turn to for pure relaxation may unexpectedly teach me something of real value. In a national emergency, the right broadcast information might save my life.

And there are powerful economic arguments for considering broadcasting as a public resource. Free-to-air broadcasting is what economists call a *public good*. There is no limit to how many people can consume it. One person's consumption does not prevent anyone else consuming it as well. Broadcasting can create collective value in the world precisely because it is a public good. But public goods like broadcasting or national defence or clean air are not handled well by conventional markets. To be delivered efficiently to those who would benefit from them – which, by definition, is the whole population – they require public intervention.

For all these reasons, the politicians and the public decided very early on that broadcasting should be placed in the public sphere of our national life. They believed that everyone has a right to high quality broadcast services, regardless of income, age, sex, race, religion or where they live. This is why the BBC was founded according to three public principles which are common to many other staples of the nation's public life – the UK's public health and education systems, our public parks, our museums and libraries:

- *Universality* – it is for everyone and should be freely available to everyone;
- *Fairness and equity* – because it is held in common it should fairly reflect the needs and interests of all its different users;
- *Accountability* – collective ownership confers on the British public the right of collective accountability and the power to monitor the performance and guide the future of the BBC through their civic institutions.

This is why even today the public, both in the BBC's research and in a recent large-scale survey conducted by Ofcom, continue to define public service broadcasting (PSB) not as a narrow set of particular programme categories which the market may fail to provide, but as a broad and integrated system of programmes and services. To them, PSB includes soaps, drama, sport, comedy and natural history just as much as (and in some cases, even more than) the traditional 'public service' categories of current affairs, arts and religion.

Public intervention in the form of the BBC, its licence fee and the wider system of PSB which includes the licensing and regulation of ITV, Channel 4, five and S4C, has brought considerable and tangible benefits to our society. We invest more per head as a nation on original programming than any other country in the world. Our public broadcasting overwhelmingly reflects and helps shape our life and culture. It supports a portfolio of UK, national and local radio stations with a range and quality of provision which is unequalled anywhere in the world. The system delivers a standard of news provision and a standard of authority and impartiality which is also unmatched around the globe. It makes learning opportunities available to all. And, because it is a universal system, it is able to bring large parts of the UK together at times of public interest, sadness or celebration.

The BBC is the cornerstone of this system. While commercial broadcasters aim to return value to their shareholders or owners, the BBC exists to create *public value*. In other words, it aims to serve its audiences not just as consumers, but as members of a wider society, with programmes and services which, while seeking to inform,



educate and entertain audiences, also serve wider public purposes. Public value is a measure of the BBC's contribution to the quality of life in the UK.

The BBC creates public value in five main ways:

- *Democratic value*: the BBC supports civic life and national debate by providing trusted and impartial news and information that helps citizens make sense of the world and encourages them to engage with it.
- *Cultural and creative value*: the BBC enriches the UK's cultural life by bringing talent and audiences together to break new ground, to celebrate our cultural heritage, to broaden the national conversation.
- *Educational value*: by offering audiences of every age a world of formal and informal educational opportunity in every medium, the BBC helps build a society strong in knowledge and skills.
- *Social and community value*: by enabling the UK's many communities to see what they hold in common and how they differ, the BBC seeks to build social cohesion and tolerance through greater understanding.
- *Global value*: the BBC supports the UK's global role by being the world's most trusted provider of international news and information, and by showcasing the best of British culture to a global audience.

These are the BBC's public purposes. Chapter 1 of our paper, *Why the BBC matters*, explores the BBC's contribution to public value in each of these areas.

We believe that public value is the best yardstick for evaluating the BBC's future contribution. It can be defined in much greater detail than it has been in the past. Moreover, although no single numerical calculation is either possible or desirable, we believe that a number of objective methods of measurement and assessment are feasible. Public value should not be seen as a broad justification for what the BBC does but as a practical test that can be applied by the BBC itself, by its Governors and by the public, to decide what it should do – and how well it does it.

## **The second digital revolution**

We believe that the current review of the BBC's Charter comes at a turning point in the development of British broadcasting. The UK is now entering the second phase of the digital revolution.

The first phase of the digital revolution focused on improved distribution, mobility and wider consumer choice. In many ways it has been a striking success. Over half of the UK population now has access to digital television and a far greater range of channels. More and more are discovering digital radio. Half of all households can surf an almost infinite number of web pages at home. Mobile phones – hardly mentioned when the BBC's Charter was last reviewed – have become an important portal for

text information and increasingly for sound and video as well. The UK is rightly regarded as one of the world's digital leaders.

Yet so far the revolution has left many people untouched. And many of the adopters complain that the quality and range of content has not kept up with the technology or the expansion in spectrum. As a result, the BBC's traditional services on TV and radio – BBC One and Radio 4, for instance – still stand out and receive remarkable loyalty from audiences even in households where there are literally hundreds of alternatives. Proper investment in content means that many of the BBC's new digital services have quickly established strong reputations. The BBC News website is a global success story, the BBC's sports website is Europe's leading sports site, while the BBC's new television channels for children, CBeebies and CBBC, with their high proportion of British programming and lack of advertising, produced an almost audible sigh of relief from many parents.

Now the second phase is beginning. It will be characterised not just by the continued take-up of these basic digital technologies, but by the rapid growth of broadband, bringing with it easy access to a potentially limitless range of programmes, services and content on demand. Interactivity, effortless communication and sophisticated consumer content creation will all become ubiquitous in digitally-enabled homes.

Much of the first phase of the digital revolution was driven by the private sector with business models based on a minority of customers paying substantial subscriptions. Everyone else was excluded – sometimes, in the case of pay-TV, from programmes and sports events they had once been able to watch free-to-air. Because a subscription model depends on pre-sold premium properties, such as major football matches or Hollywood films, most of the investment went to rights-holders rather than into new British production. With a few notable exceptions, for example in sport, innovation in content did not keep pace with innovation in technology.

In the second phase, quality of content and choice of content will be key, and the opportunities to build substantial public value will be many and various. They will include new ways to involve people in civic processes and institutions, personalised learning tools, access to previously closed archives, new ways of connecting communities, more convenient ways to watch and listen to programmes, more localised content, tailored services for minority groups. The switch from analogue to digital television is only one part of this digital transition: creating a digital Britain is about much more than one change in one broadcast technology. But if the full potential of the second phase of the digital revolution is realised, it could transform the lives of everyone in the UK.

That will only happen, however, if the new technologies are available and affordable to all. The danger is that this new wave of technologies will serve the same people in society who have been able to take advantage of the first digital decade – the digital 'haves' – with a group of increasingly isolated digital 'have nots' left further and further behind. There are powerful voices arguing that broadcasting should lose its public status altogether and, through encryption and the exclusion of those who cannot or will not pay, be turned into a private good which can be sold to individual consumers.

If this happens, broadcasting could become a well-spring of division in our society, instead of the source of cohesion it has been until now. And the welfare losses associated with denying large sections of the public the benefit of information, education and entertainment which they could have enjoyed at no additional cost will mount. Digital exclusion is a form of social waste. This is why the BBC will always be on the side of universal provision, open access and unencryption.

There are other risks to the UK's broadcasting system in this next decade. The explosion of new technologies will fragment audiences across an ever wider range of services. That makes it harder for commercially-funded broadcasters to support the concentration of investment on which high-quality UK programme content depends. But while audiences and channels fragment, the media industry itself consolidates and the powerful become more powerful: BSkyB, to take one example, now controls over two-thirds of the UK's pay-TV market. The 2003 Communications Act has made it possible for any UK broadcaster apart from the BBC and Channel 4 to be bought by a foreign company. By 2010, large parts of our media landscape may well be owned by global media giants who take a different view about public value and social and cultural priorities in the UK.

In Chapter 2, *Changing media in a changing society*, we lay out this analysis in more detail. The challenge of the coming decade will be to harness the undoubted benefits of the next phase of the digital revolution without sacrificing the values and strengths of a broadcasting system which has taken many decades to build and has delivered so much to so many. The public's appetite for public service quality and content may well grow over the next ten years. That means that the challenge for the BBC will grow as well.

## **The BBC's manifesto for the future: building public value**

Public value should be the goal for everything the BBC does. The public value imperative will mean shouldering much of the responsibility for creating a digital Britain – not just for its own services or to its own advantage, but on behalf of the public and the rest of the industry. But public value will also mean full concentration on the BBC's existing services; the BBC must never neglect its immediate audiences and duties in pursuit of the digital future. And, though the BBC should continue to offer a broad range of programmes and services, public value also demands greater distinctiveness and creative conviction in BBC output, rejection of the derivative, a commitment everywhere to the original and the worthwhile. Devices and media will change, but the audiences of the future will look to the BBC for the same qualities audiences have always demanded from it: trustworthiness, impartiality, fair-mindedness, creativity, excellence.

At the same time, the BBC's vision for its future calls for radical changes in attitude and organisation. Again the key is public value: the BBC should put the public and the interests of licence payers first when it considers what size and shape it should be and how it should conduct itself going forward. The BBC should also consider the legitimate interests and anxieties of the rest of the audio-visual sector more carefully than it has in the past. The Corporation is part of a wider ecology, the rest of which

also contributes significant public value as well as private consumer and shareholder benefit.

We have developed these priorities into a practical nine-part manifesto for the future:

## 1. Building Digital Britain

The UK has the opportunity to become a fully digital nation, in which the benefits of the new technologies are available to all. The BBC can help make it happen. Because of the appeal of its content and the trust the public have in its brand, the BBC can play a particularly powerful role in enabling the less affluent and digitally adept to make the most of the new technologies, ensuring no one gets left behind. It can lead a public information campaign with a special focus on the digital have nots. It can be a leader and co-ordinator across the industry. Specifically, we will:

- commit ourselves to the full roll-out of digital terrestrial television (DTT) with a target digital switchover date of 2012;
- work with government and industry to find ways of funding and co-ordinating the DTT build-out for all the public service broadcasters;
- lead and part-fund the large-scale marketing and public information effort which will be required to achieve switchover;
- take a special responsibility for bringing the final cohorts into the digital television universe;
- work with others to create a successful free digital satellite service, offering a broader range of channels and interactivity than DTT can currently support, and able to reach those households who will not be able to receive DTT;
- increase support for the roll-out and take-up of digital radio;
- launch a Creative Archive, a treasure-house of BBC content, available free to all – for learning, for creativity, for pleasure;
- make BBC content available to audiences when and where they want it – the BBC on demand – and help to pioneer open access to video-rich broadband;
- continue to invest in high-quality digital content that drives digital take-up and, whenever it is consistent with the BBC's brand and values, make it available to other digital platforms and providers;
- work with others to make online and broadband more affordable and accessible;
- enable people to find the content they want by developing, with others, easy-to-use, consistent navigational tools based on open standards.

## 2. Programmes and services that build public value

An effective and focused BBC, inspired by its enduring values and enabled by new technology and deeper understanding of its audiences, has a historic opportunity to increase the public value it delivers against each of its principal public purposes. We will:

### Active and informed citizenship

- recapture the full trust of audiences and participants in BBC journalism following the Gilligan/Kelly affair and implement in full the recommendations of the Neil Report; create a new college of journalistic excellence;
- restore the prominence and appeal of serious current affairs and analysis on BBC television – including on BBC One; use schedule-busting events and specials to highlight and explore the major issues of the day;
- use digital technology to launch highly local television news services for up to 60 cities and counties across the UK;
- use new media and some of the BBC's most popular services to attract hard-to-reach groups, young people in particular, to an intelligent news and current affairs agenda;
- create opportunities, especially at local and regional levels, for people to become more active citizens; encourage more open debate and public participation on radio and new media; build on the BBC's successful Open Centres and learning buses to engage people in their local communities;

### British culture and creativity

- dedicate all of the BBC's services to originality and excellence; eliminate derivative programmes and ideas from the schedules; find and then trust the best creative talent and teams;
- maintain the creative revival of drama, focused on originality and challenge, across radio and television, with greater opportunities for single and event drama;
- develop comedy as a unique class- and generation-spanning BBC strength; increase investment in it; build more opportunities for cross-platform development and collaboration;
- focus on innovation and the discovery of new talent and ideas in popular entertainment and sport;
- defy standard programme categories to open up challenging subjects to large audiences – from arts and history to science, religion and music; seek out the

next generation of exceptional, inspiring presenters in each of these disciplines;

- secure the BBC's commitment to our collective cultural heritage by maintaining investment in music-making, arts and documentary coverage on Radios 1, 2 and 3, increasing investment on BBC Four and guaranteeing a more prominent place for culture on BBC One and BBC Two; showcase the glories of our national culture in mainstream settings;
- stimulate the creativity of our audiences, giving them a chance to tell their stories and make their own programmes; use the BBC's educational, new media and local resources to build skills in the arts and creative industries, particularly among young people;

### **A revolution in learning**

- launch and deliver the BBC Digital Curriculum to every school in the UK, working more collaboratively with the rest of the education sector to bring the learning revolution to every British child;
- launch a new generation of landmark educational campaigns across all media;
- work with outside private and public partners to maximise the impact of educational and educative initiatives;
- use the most popular programmes and services to connect hard-to-reach audiences to educational opportunities;
- use [bbc.co.uk](http://bbc.co.uk) and interactive TV to develop new personalised formal and informal learning opportunities for different audience groups;
- take a lead in media literacy and safety on the internet; launch *BBC KidsSafe*, a series of practical tools and initiatives designed to make the internet a safer place for children;
- launch specific campaigns in partnership with others to encourage grass roots participation in sport and music, including *Music For All*, a multimedia project connecting schools and broadband-enabled homes to the full range of the BBC's performance and learning resources to enhance appreciation and understanding of music;

### **Connected communities**

- strengthen core services and create new local services within Scotland, Wales and Northern Ireland; extend the opportunities for national cultural expression especially in mainstream programme forms;
- continue to invest in comprehensive coverage of the devolved institutions;
- reinforce the BBC's commitment to the UK's indigenous languages;

- create a full new BBC region in central England, based in Milton Keynes;
- offer all local radio services on digital platforms and enhance the BBC's existing local websites in ways which maximise distinctiveness and minimise any adverse market impact;
- extend the network of BBC Open Centres and BBC multimedia learning buses across the UK where local partnerships allow, focusing on cities and regions where audience need is highest;
- in network services on TV and radio, seek to foster greater audience understanding of cultural differences across the UK population – in ethnicity, faith, sexuality, ability/disability and age; show particular sensitivity in reporting issues and events which may be socially divisive;
- faithfully reflect modern Britain's diversity in mainstream as well as specialist programmes; set new targets for the on-air portrayal of ethnic minorities, those with disabilities and those from other minorities; monitor usage of, and attitudes to, the BBC by the UK's minorities, listen to their concerns and priorities, and reflect those concerns in the future development of services;
- ensure that as an employer and partner with the UK's creative community, the BBC is open to talent from every group in society;
- continue to invest in the major sporting and public events – from Euro 2004 to D-Day – which bring large sections of UK society together, using the BBC's breadth of media at local, regional, UK and global levels to bring new perspectives;
- develop more new BBC events like *The Big Read* or *Great Britons* which draw disparate groups into a shared experience;

### **The UK's voice in the world**

- in a world of instability and mistrust, build the BBC's reputation as the world's most trusted broadcaster of news and information through BBC World Service, BBC World and the BBC's global online services;
- use a multimedia strategy, especially the internet, to turn global broadcasting into a true global conversation;
- work to establish a firmer financial foundation for BBC World and guarantee its delivery to global audiences in the long term;
- extend the BBC's existing strategic joint ventures, for example with Discovery Communications, to offer better access to international markets for British talent and British culture and to return better value to the licence payer;

- use the BBC's global presence to bring a richer international dimension to domestic programmes and to help connect the people of a multicultural UK to their international roots.

Chapter 3, *Building public value in the future*, describes these ideas in more detail.

### 3. A new test of public value

The public, the Government, the broadcast industry as a whole and the BBC's many other stakeholders all have a right to expect that public value should mean just that, and that the benefits of any existing or proposed new service should outweigh any disbenefits there may be, including potential negative market impact. The BBC therefore proposes to commit itself to a new system for assessing new services and monitoring the performance of existing ones, based on objectivity, rigour and transparency. This system, set out in Chapter 4, *Demonstrating public value*, will give licence payers greater assurance that the BBC's services will deliver against their wider public purposes. And, because it will delineate the scope and objectives of BBC services more explicitly than in the past, the system will also make the BBC's current and future services more predictable from the perspective of other players in the media market.

- The BBC's Board of Governors will subject every new service – or major proposed development or expansion of an existing one – to a public value test before approving its launch, including an independent evaluation of its likely market impact.
- Every BBC channel and service will be granted a Service Licence by the Board of Governors, setting out its remit, conditions and objectives. Significant variations to the licence would require agreement from the Board.
- Every three to five years, the Governors will commission an independent public value survey of 10,000 licence payers. This survey will form the core of a comprehensive audience-based assessment of the impact, value and effectiveness of the BBC's services. The Governors will publish the results of the survey.
- A new performance measurement framework will be adopted, based around four overall criteria: reach, quality, impact and value for money. The framework will consider public value delivered against each of the BBC's five principal public purposes. Reach – the proportion of people who use the BBC's services – will be a headline indicator of success. Audience share and volume will continue to be considered as measures of programme or service impact, but only as two among several.

### 4. The right scale and scope

The BBC will use public value to drive all its decisions about the scale and scope of what the organisation does. It will be applied both to the *breadth* of the BBC –



that is, the multimedia scope of the BBC and its range of services – and its *depth* – in the form of wholly-owned commercial subsidiaries or the vertical integration represented by owned-and-operated production and resource bases.

### **Breadth of BBC services**

Licence payers rightly demand a very wide range of services from the BBC. A more sensitive and detailed appreciation of the specific needs of different audience groups, combined with the potential of new technologies to meet individual needs, mean that the breadth of the BBC's offering should continue to develop flexibly over the next decade. The multimedia scope of the BBC, which brings synergies and linkages for users and creators alike, will be one of its greatest public strengths.

- However, the transformation of the BBC's range of linear radio and television channels for the digital world is now complete, and we have no plans for further channel launches.
- As the second point in our service manifesto makes clear, the BBC will be looking first and foremost for creativity and ambition *within* the content of its existing television and radio services over the next ten years.
- It will seek, however, to make its programmes and content as widely available and accessible as possible, using new platforms and technologies, and in partnership wherever it can, to tailor that content to the needs of groups, families and individuals.
- No new service will be proposed without widespread consultation and no new service will be approved unless it meets the exacting conditions and controls set out in the previous section.

Chapter 5, *The breadth of BBC services*, sets out our analysis and future plans for the BBC's service range in more detail.

### **Depth and vertical integration of the BBC**

The question of the BBC's depth must also be driven only by interests of the licence payer. How do licence payers benefit from a particular activity being carried out inside the BBC as opposed to being supplied from outside, for example by a commercial partner or an independent producer? In fact, there are many powerful reasons why in-house provision may make sense: security of supply and quality; critical mass; training and the development of a long-term creative tradition; greater efficiency; greater ease of developing flexible cross-media products and services. The BBC has an extraordinary wealth of creative talent in its production departments and an exceptional heritage of excellence. As a result, it is certain that the BBC will wish to retain extensive in-house operations in many areas. But a test of public value should be applied throughout the organisation and, where it makes more sense to source a given requirement from an external partner, a change should be made. We have identified two immediate

priorities for review: the BBC's in-house and independent production base, and its commercial activities.

#### **i In-house and independent production**

- This summer the Director-General will initiate a comprehensive review of the BBC's commissioning needs and production base in all media. The BBC will consult with independent producers, the freelance sector and other external stakeholders as well as with the BBC's own production community. The review will report in autumn 2004 and will set out a new supply strategy for the BBC.
- The BBC wants the licence fee to be invested in the best ideas and the best talent whether they come from inside or outside the BBC. It will commit itself to a fully level playing-field for in-house and independent programme makers and will ensure that independents can benefit from their risk-taking and investment in line with the new Code of Practice and terms of trade.
- From now on the BBC will ensure that it always exceeds its statutory quota for independent production in television. In the light of its commissioning and production review, it may set voluntary targets in some programme areas which are higher than the statutory quota. In radio, the BBC will commit to continue to exceed the current voluntary target of 10% of network radio production from the independent sector, and, as part of the review, will agree and then publish a voluntary quota for the nations' radio services. A new voluntary quota for internet and broadband production will be announced shortly.

#### **ii Commercial activities**

- The BBC has a duty to extract the maximum value from the licence fee – as a result, successive Governments have asked the BBC to develop its commercial activities and revenues. The result has been significant additional investment into public service programmes, reduced resourcing costs, greater access to global markets for UK talent and culture, and an enhancement of the worldwide reputation of the BBC brand. However, the BBC is now committed to clarifying the scope of its commercial activities.
- The Director-General will launch a comprehensive review of the BBC's commercial activities which will report by the end of 2004. It will involve wide consultation with external stakeholders and alternative partners as well as within the BBC. It will set out a new commercial strategy for the BBC, addressing issues of scope, ownership and fair trading.

The Director-General will present the recommendations of both reviews to the Board of Governors, who will then assess and agree any changes with the management before they are published and implemented. Chapter 6, *Renewing the BBC*, sets out these plans in more detail.

## 5. Unlocking the power of partnerships

From *Restoration* to UKTV to Comic Relief to *GCSE Bitesize*, many of the BBC's greatest successes in recent years have been based on teamwork and joint ventures with outside partners. The results can be spectacular. BBC Children in Need, a network of charity partnerships, has raised £325m to date. Cultural partnerships like *Painting the Weather* with the National Gallery and many other galleries around the UK have inspired and motivated audiences far more powerfully than any of the parties could have done on their own. These achievements show how much more the BBC can contribute when it faces outwards rather than inwards. We no longer want to leave the creation of such relationships to chance, but will put the idea of partnership at the centre of the BBC's strategy and ensure that every part of the organisation understands what it takes to become a good partner.

- By the end of the year the BBC will publish a *partnership contract* setting out the principles and standards which the BBC will bring to any partnership; what any potential partner can expect from us; and how we will measure partnership performance.
- We will also post a partner's guide to the BBC on the web, creating new doorways into the organisation, establishing clear points of contact for potential partners, and encouraging them to see the BBC as an open creative resource.
- One of the BBC's most powerful creative tools is its cross-media programming and marketing capability – seen to such great effect in projects like *The Big Read* and *Hitting Home*. The BBC will seek to share this capability more widely with partners who can collaborate with it to fulfil both parties' broader public purposes, especially in the cultural and educational fields.
- The BBC will also explore new models of partnership with both public and private sectors. Ideas include the creation of joint venture *public interest companies* and the creation of media villages around the UK, where the BBC provides space and infrastructure for independent production companies.
- Other priority areas include broadband, media literacy, new media learning and the overall objective of achieving digital television switchover.

## 6. From London to the whole UK

The BBC is paid for by licence payers across the UK. Its programmes should reflect the life and experience of the whole UK. In its investment, employment and the geographical spread of its broadcasting, production and other operations, it should be more fully representative of the people it serves. Over the past decade the BBC has made substantial moves to shift investment and jobs from the south-east of England to the rest of the UK. We now want to go further.

- The BBC is currently considering a range of options for moving a significant number of services and production departments from London to Manchester, building the BBC's centre there into a major multimedia broadcast and production centre for the future. It will announce detailed proposals later in 2004.
- In its review of production capacity, the BBC will ensure that any reduction in in-house capacity does not reduce network programme-making in the nations or regions. On the contrary, it expects the opportunities for nationally and regionally based programme makers, both in-house and independent, to continue to grow.
- By the end of the next Charter period, half of all the BBC's public service staff will be based outside London. The BBC will spend more than £1bn a year on programmes outside London – over a third more than today.

## 7. A more open BBC

Despite the aspirations of its founders and its remarkable emotional bond with the British public, the BBC has historically been rather closed as an institution. It has quite rightly sought to safeguard its editorial independence, but one of the side effects has been a record in listening and responding to external criticism that has been uneven at best. Modern audiences, contemporary public standards and the challenges of the next decade all demand a more open, responsive BBC. It should already be clear from earlier proposals that we intend to build a far more open climate within the BBC, with improved access for independent and regional programme-makers, commercial partners and other colleagues and co-workers from across the public and private sectors. But the BBC should also be more open to the public themselves – as citizens, consumers and most important of all, as owners. This implies a profound cultural change within the BBC.

- Audiences should be at the centre of everything we do. The BBC will research licence payer priorities carefully before proposing any new service or major adjustment to an existing service.
- We will use our BBC multimedia learning buses, Open Centres, BBC Talent, work experience and other work and training opportunities to offer as many people as possible a chance to work inside the organisation and to consider a career in the broadcasting and creative sectors.
- We will make special efforts to connect with the UK's ethnic, disabled and other minorities and to encourage members of these minorities to offer their talent and energy to BBC programmes and services.
- Last year, BBC Information handled nearly two million calls, letters and e-mails (of which less than 8% were complaints). We will work to improve the responsiveness and helpfulness of these services further and to raise customer satisfaction above its current 85%.

- We will improve and broaden the information available about the BBC on [bbc.co.uk/info](http://bbc.co.uk/info). We will implement new guidelines for responding to all contacts at all levels in the BBC within published timescales and we will publicly measure our performance against these guidelines.
- The BBC will shortly announce a new system for dealing with complaints from licence payers with stronger safeguards to ensure objectivity, fairness and transparency, including a new Head of Complaints reporting directly to the Board of Governors.
- The BBC will feature comments and complaints about its programmes much more prominently across all media. We will launch a new multimedia initiative spanning BBC One, Radio 4 and [bbc.co.uk](http://bbc.co.uk), as well as a live and interactive 'right to reply' programme on BBC News 24.

## 8. Self-help and a modernised licence fee

The licence fee remains the best way of paying for the services which the BBC offers the public. It is a universal means of paying for what is essentially universal provision. It is clearly understood by the public and, despite the great changes that have already taken place in broadcasting, retains widespread acceptance. Its separation from general taxation and the Exchequer reinforces the BBC's independence. And it keeps the BBC focused on serving the public as a whole.

### Alternative funding methods

Subscription, which is advocated by some, would undermine the principle of universality upon which the BBC was founded and which can be achieved again once Britain becomes fully digital. It would exclude some, both from the digital opportunity and from programmes and services which are currently free-to-air, leading to serious welfare losses. And it would turn the BBC into an essentially commercial operation with an inevitable incentive to concentrate on services most likely to maximise subscription revenue.

Advertising would similarly change the character and motivation of BBC services. It would also reduce the amount of advertising revenue available to fund other public service broadcasters like ITV, Channel 4, and five and also commercial radio. Lower revenues would cut the total amount available to invest in distinctive and original UK content.

Direct government grant would reduce the financial independence on which the BBC's editorial independence partly rests. It would also leave the funding of BBC services more exposed and more vulnerable to abrupt fluctuation than does the licence fee.

Some people argue that, although the licence fee should be retained, it should be 'top-sliced', or diluted, with a proportion going, under one model, to the other public service broadcasters like Channel 4, or, in another model, to anyone who proposes to offer programmes of public value. It is seen by some as a way of

securing the long-term financial stability of other public service broadcasters (PSBs).

Though these ideas have some superficial attractions – they seem fair, and perhaps an easy way of dealing with concerns about the BBC’s scale – the BBC does not believe that fragmenting the licence fee is a desirable solution to the issue of funding public service broadcasting as a whole. Our reasons are set out in Chapter 7, *Paying for BBC services*, of which four stand out as the most serious:

- Fragmenting the licence fee between different PSBs would break the clarity of the public’s understanding of what the licence fee is and what it pays for.
- It would lead to institutional fragmentation of the BBC (and potentially the other PSBs) and so to an irreversible dismantling of the structural fabric of our public service broadcasting system.
- Adding a new intermediate funding body would create bureaucratic complexity and would itself require the full apparatus of civic accountability.
- Commercial imperatives for commercially funded broadcasters mean that licence fee value could find its way to shareholders, rather than to licence payers.

We believe there are better ways to address the issue of PSB funding in the coming years. The BBC believes that strong public service broadcasting requires more than a properly funded BBC: a strong Channel 4 with its own powerful tradition of innovation and diversity is an essential part of the system. Essential too are strong PSB contributions from ITV and five, especially in key categories like news. Securing the long-term financial supply of PSB programmes from other broadcasters must be a priority both for Government and for Ofcom, and the BBC is more than willing to play its part in finding solutions. It is prepared, for example, to work with Government to find ways in which the BBC can help ease the financial burden on the other PSBs of the transition from analogue to digital terrestrial television, and will actively explore other partnerships and collaborations which enable Channel 4 and the other commercially funded PSBs to continue to offer outstanding public service content in a sustainable way.

### **Transforming the licence fee**

Although the BBC believes that the licence fee remains the fairest and most effective way of funding its services, it does not believe that the licence fee should stand still. Since it took over responsibility for collecting the fee in 1992, it has reduced costs from 18.8% to 11.3% – an achievement praised by the National Audit Office. Now, we want to go further and transform the licence fee as a means of payment. We believe that savings could be as high as £50m a year. Specifically, we propose to:

- increase the number of people paying the licence fee by direct debit from 55% today to 80–90%. This would reduce collection costs further;

- migrate to paperless licensing with at least half of all households paying, renewing and updating their details online;
- remove the requirement for people over 75 to renew their free licences annually;
- enter into a dialogue with Government and other stakeholders to explore ways of making the licence fee more affordable to the least well-off in society.

### **Self-help as the starting point**

The BBC has a responsibility to keep the financial burden on all licence payers as low as possible. This is why every discussion about the future level of the licence fee should begin with the question of self-help. The BBC will aim to keep the licence fee as low as possible by ensuring that as high a proportion is spent on programmes and services as possible. In fact, the BBC has funded a large part of its digital investment over the past decade through self-help, comprising both efficiency savings across all its operations and improved commercial cashflows. Now the BBC intends to set itself further testing targets for self-help. It will:

- make value for money a key criterion for investment and funding decisions at every level of the organisation, from the Board of Governors down;
- seek substantial reductions in programme production costs through advances in broadcast and information technology and multiskilling, with the aim of building an integrated system of digital content production that is indisputably world class;
- reduce overheads further from 12% to 10% of expenditure by early in the next Charter period through further procurement improvements, system enhancements and supplier partnerships;
- examine the potential for savings by moving some administrative and other operations out of London;
- continue to build commercial revenues from intellectual property and other broadcast assets.

Chapter 7 sets out these proposals in more detail.

## **9. Reforming BBC governance**

The BBC is owned by the British public. The essential objective of its constitution and system of governance should be to ensure that the BBC acts solely in their interests and that it pursues the public goals they set for it with energy and effectiveness.

For the past 80 years, the BBC's current constitution, based on a Royal Charter and with an independent Board of Governors at its heart, has enabled the Corporation to

become an essential part of the UK's national life, trusted for its independence both from political interference and from commercial interest, for its impartiality and authority and for its commitment to excellence. The system has worked in both war and peace and has coped successfully with numerous difficult decisions and the unforeseen crises which any major institution must encounter. However, public expectations of scrutiny and accountability are greater today than in the past and the BBC recognises that its system of governance must change significantly if it is to retain full public confidence over the next Charter period.

The ultimate decision about how the BBC should be constituted and governed rests with its owners, the public, and their elected representatives in Parliament and Government. The BBC's Governors would submit, however, that the BBC's distinct and independent role in British public life depends and will continue to depend on distinct and independent governance. Secure and transparent protection from political interference or from commercial influences will continue to be critical. So too will be an effective and objective system of scrutiny of existing and proposed future BBC services so that licence payers can be certain that their money is being well spent and their interests best served by the BBC.

Part II of this paper, *Governing the BBC*, sets out the Board of Governors' plans for change. It is the only section of the paper that comes solely from the Governors, as reform of the BBC's system of governance is properly an issue for the BBC's Board of Governors rather than for the BBC's management. In the future, the Governors will:

- ensure clear and indisputable independence of the Board of Governors from the management of the BBC, including the creation of a distinct and adequately-resourced Governance Unit to provide independent expertise to the Board;
- introduce a new framework of transparent scrutiny of the BBC's activities by the Board of Governors, using the tools of the public value test, the new Service Licences, the regular large-scale public value survey and the new performance measurement approach set out above;
- apply a more rigorous approach to the consideration and approval of proposed new services, based on the public value test, to include an independent assessment of potential market impact;
- launch a package of measures to make the BBC more responsive and accountable to the British public, including a stronger role for the BBC's network of advisory bodies, more effective use of new technologies to consult directly with licence payers, an improved and more objective process for handling complaints as highlighted in the previous section;
- publish an Annual Report owned solely by the Board of Governors, based not just on BBC management's account of their progress against objectives but also on consultation with the public and other stakeholders;



- ensure greater collaboration between the Governors and other regulatory agencies, in particular Ofcom, on whose expertise – especially in the field of market impact – the Governors would wish to draw. Here, as in other areas, there should be a stronger emphasis on partnerships.

Many of these changes can and will be implemented immediately. A properly resourced and empowered Board of Governors should be able to take more responsibility than at present for the regulation of the BBC – for example, conducting the reviews of new services currently carried out by the Secretary of State. They should be able to work more effectively with Ofcom to ensure that the BBC and its services play a proportionate and complementary role within the wider PSB system. Above all, they will have the power to ensure that the BBC puts the public first in everything it does.

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The digital future is an exciting one. The public can look forward to a time of unrivalled consumer choice. New devices and communication channels will compete to deliver the right content to the right customer, whenever and wherever he or she wants it. All this is good for individual consumers, for our society and for the wider UK economy. The BBC will play its part in building the infrastructure and content on which this new digital world will be built.

But the BBC believes that broadcasting will always be about more than the purely private. The new technology will open up not just individual consumer pathways but new civic avenues and town squares, public places where we can share experiences and learn from each other, places where we can celebrate, debate and reflect. In this paper, *Building public value*, we try to show how an independently and effectively governed BBC, focused on its vision and its values – yet open to new ideas, to justified criticism, above all to the views and priorities of its audiences – could play a decisive role in creating public value in this new digital world.

But, while the BBC has a duty to contribute its ideas to the debate, it also knows that the question of its future is not one that it itself can or should decide. That decision rests firmly with its owners, the British public.

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# PART I: Purpose, role and vision

## Chapter 1: Why the BBC matters

The BBC is a unique institution. Owned by the British people and independent of political and commercial interests, it exists to serve everyone, regardless of age, income, sex, race or religion. Its purpose, largely unchanged in 80 years, is to enrich the life of every person in the UK with programmes that inform, educate and entertain.

People care about the BBC. They feel they have a stake in it, and mind if it lets them down. People turn to the BBC first at moments of national importance, celebration and sadness. It is widely admired around the world – for the impartiality of its journalism, for the quality of its drama and entertainment, for the ambition of its factual programmes. As even its critics would acknowledge, the BBC is a British success story.

Yet in today's changing media market, some of the traditional arguments for public service broadcasting are beginning to age. Now that commercial companies can offer a growing number of broadcast services, a modern, and in some ways, new case has to be made for the relevance of public service broadcasting – and particularly for the retention of a large, publicly funded organisation with a single-minded public mission. This chapter sets out the BBC's contribution to that debate.

### 1.1 What is public service broadcasting?

Different countries have very different definitions of public service broadcasting. In the US, for example, public service broadcasting is quite simply what the commercial market will not do. This is why PBS, the sole American public service television broadcaster, is a marginal broadcaster showing minority programmes in which commercial television has no interest. It achieves a primetime viewing share of less than 2%<sup>1</sup>. US television is essentially commercial, funded either by advertising or by subscription.

The UK has taken a different approach from the beginning. Very early on, politicians and the British public decided that broadcasting should be placed in the public sphere of our national lives. They believed that everyone has the right to high-quality broadcast services, whoever they are and wherever they live. This has been achieved by ensuring that broadcasting is delivered according to public principles – the same principles that drive our decisions about many other aspects of the nation's public life, including healthcare, education, our public parks and museums. These principles are universality, equity and accountability to the British public. The point of

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<sup>1</sup> PBS website, *Corporate Facts*, 2004

the BBC is to bring these principles into the realm of broadcasting. They are embodied in its Royal Charter.

The Charter requires the BBC to make its programmes and services universal, meaning that everyone must be able to access them as cheaply as possible. It also requires the BBC to treat people equitably and fairly, which means providing programmes and services that, through their originality, range and creative ambition, offer something of value to every individual in the land.

The third public principle is accountability to the British public. The BBC's governance system was deliberately created to bring accountability to a much wider constituency than just the government of the day. The BBC is accountable to the people who pay for it through its Board of Governors, which acts as trustee of the public interest and ensures the BBC's independence. Independence from all interests, political and commercial, is the foundation stone of the BBC. It must be non-negotiable in any decisions about the BBC's future.

The UK's decision to place broadcasting in the public realm of our national life has at heart been a cultural one. It is rooted in the importance of broadcasting to people's lives. We each spend an average of over 50 hours every week watching television, listening to the radio and using the internet, compared with only 30 minutes reading books and 50 minutes reading newspapers and magazines<sup>2</sup>. Sixty-five per cent of people rely on television as their main source of news<sup>3</sup>. Broadcasting has the power to shape our views and values, provide opportunities to learn, connect communities and create shared experiences in ways that few other activities can.

As a result of these choices, the UK's definition of public service broadcasting is very different from that in the US. It is a system, rather than a particular genre of programmes. It can perhaps best be defined as a range of high-quality programmes and services whose only aim is to serve the public interest, be universally available, and treat people equitably and fairly. Not every public service broadcasting programme will be completely different from the commercial market – that would be the American model. Nor will every programme suit the tastes of all viewers and listeners – a universal service cannot achieve that. But every programme should aim to carry a hallmark of quality and ambition.

This definition of broad-based public service broadcasting corresponds closely to what British audiences say they most value. An independent survey conducted for the BBC in 2004<sup>4</sup> asked people what types of television programme were most important for public service broadcasters to provide. The top eight were news, regional news, wildlife, current affairs, soaps, consumer programmes, education and British comedy (Figure 1) – a broad range of programmes that goes well beyond any narrow 'high ground' definition of public service broadcasting. These findings are supported by similar research recently conducted by Ofcom<sup>5</sup>.

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<sup>2</sup> BBC, *Daily Life survey*, 2002/03; Nielsen Net Ratings/Oftel/Forrester, 2003; Screen Digest, *The Media File to 2010*, 2001

<sup>3</sup> ITC/BSC, *New News, Old News*, 2002

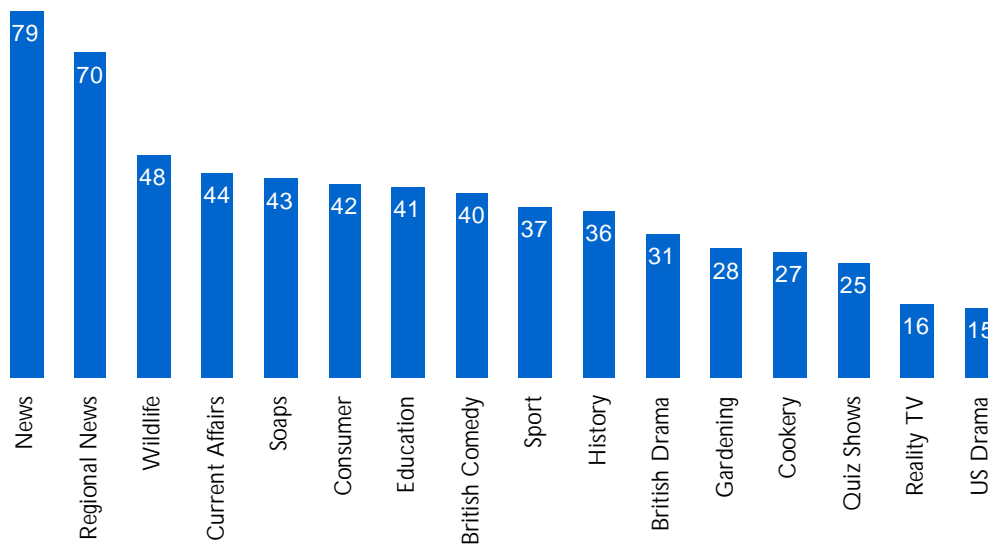
<sup>4</sup> Human Capital/Martin Hamblin GfK, *A study measuring the value of the BBC*, 2004

<sup>5</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?*, Figure 33, 2004

## How people value different types of programme in terms of their importance to the country as a whole

Figure 1

% ranking as important



Source: Martin Hamblin GfK, 2004

16 genres selected from list of 38

While their purpose is not solely to act in the public interest, the UK's commercially funded public service broadcasters – ITV, Channel 4 and five – are very much part of our public service broadcasting system and have made a substantial and lasting contribution to its success. Since commercial public service broadcasting was first created in 1955, there has been healthy competition in high-quality UK-made programmes. A recent report into the UK content market shows that ITV and Channel 4 both invest substantially more in domestic programmes than their European counterparts<sup>6</sup>, and more than they are required to do by law. This is in significant measure because of the existence of the BBC and the way it is funded. In order to attract audiences in competition with the BBC, commercial broadcasters too must invest in high-quality, British-made programmes. In turn, the commercial sector keeps the BBC on its toes.

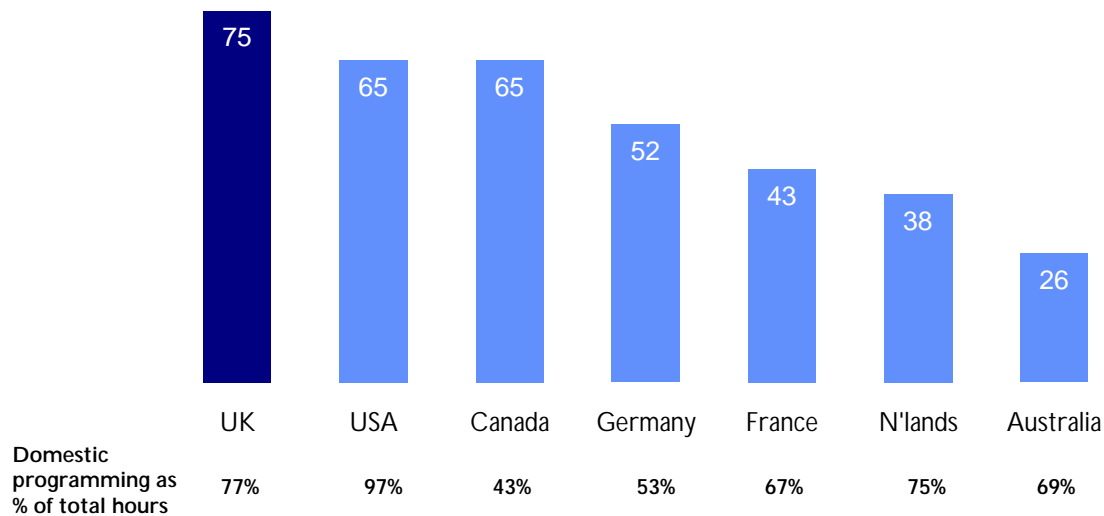
The end result is that, by international standards, our broadcasting system carries an exceptionally rich mix of original home-grown programmes. We as a nation spend more per head on original television programming than any other country in the world, and have the lowest level of imported programming outside the US (Figure 2). As a consequence, through UK-made drama, comedy, sport, factual, arts and entertainment programmes, our broadcasting system strongly reflects the culture, values and tastes of our society.

<sup>6</sup> Oliver & Ohlbaum Associates, *UK Television Content in the Digital Age*, 2003

## The UK has the highest spend per head on original domestic programmes in the world

Figure 2

2001/02 revenue per head in \$US



Source: PWC, OBS, Company Accounts, CNC, Oliver & Ohlbaum Associates

## 1.2 The public value of the BBC

Because the BBC is a public organisation, it is able to make a unique contribution to the UK's broadcasting system. While commercial broadcasters aim to create shareholder value, the BBC exists solely to create *public value*.

The BBC creates public value by serving people both as individuals and as citizens. For people as individuals, the BBC aims to provide a range of programmes that inform, educate and entertain, that people enjoy and value for what they are.

For people in their role as citizens, the BBC seeks to offer additional benefits over and above individual value. It aims to contribute to the wider well-being of society, through its contribution to the UK's democracy, culture and quality of life. So, in the case of news programmes, someone may benefit not only from the programme, but also from its wide availability and consumption by others, helping to create a more informed society based on shared understanding.

The citizen value of a broadcast programme is greatest when it is offered universally and equitably. The educational value of, say, *Child of our Time* or *Seven Wonders of the Industrial World* is greater if it is freely available to all and designed to attract people of all ages and backgrounds than if it is offered as a pay service, or with a narrow target audience in mind. The BBC's commitment to universality and equity therefore helps to maximise the public value of broadcasting.

Individual and citizen value are really two sides of the same coin. It will be a rare programme that delivers no individual value but high citizen value. The most successful public service programmes are those that do both.

There is a third component of public value that needs to be considered, and that is the economic value of the BBC. The BBC is capable of creating substantial positive economic value, for example through its stimulation of the UK's creative economy. Of course, parts of the BBC's economic impact can be negative – for example, where it may reduce audiences for a rival commercial service. The economic value of the BBC therefore needs to be a net calculation.

The sum total of the BBC's individual value, citizen value and economic value is the public value of the BBC – a measure of its contribution to the quality of life in the UK.

## Defining public value

All public organisations aim to deliver not only value for individuals, but also value for people as citizens. This is their public value – the difference they make to the quality of life in the UK.

The public value of a public service has three components:

- Value to people as *individuals*. A public park aims to bring enjoyment by offering a personal space to those who use it. The NHS provides people with consultation and treatment that can prevent and heal sickness. The BBC aims to inform, educate and entertain.
- Value to society as a whole – to people as *citizens* – by contributing to the wider well-being of society. Citizen value often rests on the availability of a service to all on equal terms. A public park brings social benefits to its local community. The NHS helps to make the UK a healthier society. The BBC aims to contribute to the wider social, democratic and cultural health of the UK through the range and quality of its broadcasting.
- Impact on the performance of the wider commercial market – its *net economic value*. A public park can increase custom for local shops and businesses. The NHS can help to ensure healthy and productive employees. The BBC's market impact can have a positive element, such as through its impact on training and creative investment, and also a negative element in cases where it reduces demand for commercial products.

Public value is the sum of these three elements. Public value is being increasingly acknowledged as a useful way of assessing the contribution of not-for-profit organisations to society<sup>7</sup>.

Part of the BBC's public value is indirect. Through its relationships with other organisations, the BBC can have a 'multiplier' impact on society. For example, the BBC's recent *Big Read* collaboration with libraries and book publishers reawakened interest in reading. Working with charities and talent from across the UK, Comic Relief, an annual evening of comedy on BBC One, raised over £65m for good causes in 2003. In the next year, the BBC will work with the NHS and other health

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<sup>7</sup> Barry Bozeman, *Public Value Failure: When Efficient Markets May Not Do*, 2002; Gavin Kelly & Steven Muers, *Creating Public Value: An Analytical Framework for Public Service Reform*, 2002; Mark Moore, *Creating Public Value: Strategic Management in Government*, 1997

organisations to raise awareness of the problems of obesity. One of the exciting features of the digital world is the potential for greater multiplier benefits through partnerships – Chapter 6 sets out our developing ideas in this area.

We believe public value is the best way of thinking about the future contribution of the BBC. In this respect, we welcome Ofcom's recent report on the public service television market<sup>8</sup>, which also redefines public service broadcasting in terms of its purposes rather than particular genres of programme.

The BBC contributes to public value in five main ways:

- *Democratic value*: the BBC supports civic life and national debate by providing trusted and impartial news and information that helps citizens make sense of the world and encourages them to engage with it.
- *Cultural and creative value*: the BBC enriches the UK's cultural life by bringing talent and audiences together to break new ground, to celebrate our cultural heritage, to broaden the national conversation.
- *Educational value*: by offering audiences of every age a world of formal and informal educational opportunity in every medium, the BBC helps build a society strong in knowledge and skills.
- *Social and community value*: by enabling the UK's many communities to see what they hold in common and how they differ, the BBC seeks to build social cohesion and tolerance through greater understanding.
- *Global value*: the BBC supports the UK's global role by being the world's most trusted provider of international news and information, and by showcasing the best of British culture to a global audience.

These are the public purposes of the BBC. In the next few pages, we explore the contribution that the BBC makes in each area – to people as individuals, as citizens and to the wider UK economy.

### **1.3 The BBC's democratic value: supporting informed citizenship**

One of the BBC's most important contributions to public value is to provide trusted, independent and impartial news and information for everyone, with a strong commitment to context-setting and analysis. It helps to deliver a fundamental component of British democracy: truthful and reliable news, rigorous analysis and wide-ranging, intelligent debate that allow citizens to formulate their own opinions and exercise their votes.

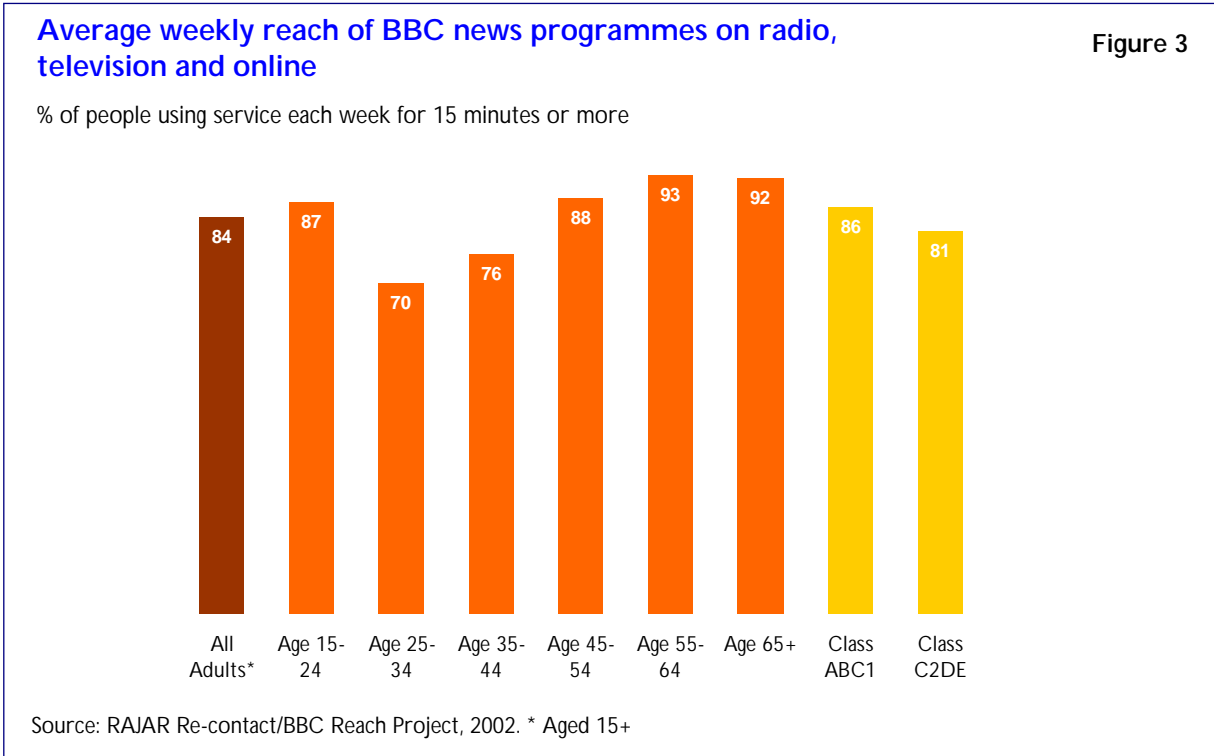
The universality of the BBC and its span across media and communities mean that it can provide a unique public space in which national debate can take place. *Today*, *Question Time*, *The Politics Show*, *The Jeremy Vine Show* and local radio phone-ins

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<sup>8</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?*, Paras 1–2, 2004

are among the scores of national, regional and local programmes which aim to tackle issues from all sides and provide platforms for a range of voices. Views can be considered, scrutinised and challenged in ways which provoke audiences to test and form their opinions, reach their own conclusions and understand the positions of others more clearly.

A second responsibility of the BBC, derived from its commitment to serve everyone, is to reach all kinds of people in the UK with news and analysis that speaks their language. To take three examples: *Newsnight* on BBC Two provides in-depth analysis for people who want to understand the issues behind the news; *Newsbeat* on Radio 1 is designed to reach and inform young people; and *Newsround* on BBC One and CBBC is aimed at children. There is a tailored news service on almost every BBC channel, and the BBC news website and BBC News 24 have helped to extend reach to people who prefer to catch the headlines as they develop, or at their convenience. As a result, 84% of the nation watches or listens to BBC News every week<sup>9</sup> (Figure 3).



The independence of the BBC has helped to create a national climate in which broadcast news is more trusted in the UK than in most other countries. In the US, for example, where there is no publicly funded news broadcaster, broadcast news is trusted by only around one-third of people<sup>10</sup>. In the UK, television news as a whole – provided by the BBC, ITN and Sky – is trusted by 85% of people<sup>11</sup>. One reason for the stark difference lies in the commercial popularity of opinionated news, which has led Fox News and other US news broadcasters to move away from a policy of impartiality.

<sup>9</sup> RAJAR Re-contact/BBC Reach Project, 2002  
<sup>10</sup> PEW Research Center, *News Media’s Improved Image Proves Short-Lived*, 2002  
<sup>11</sup> MORI/Radio Times, *View of the Nation Television survey*, 2001



The BBC is committed to independent and strong investigative journalism. *The Secret Policeman*, BBC One's undercover investigation into racism in the police, prompted a major national review. *Panorama's* award-winning investigations into the widely used anti-depressant Seroxat raised concerns about the use of the drug and the system of drug regulation in the UK and resulted in the launch of a wide-ranging government review. Radio 4's *File on 4* report on the case of Sally Clarke, the mother cleared last year of killing her children, led to a rethink of the role of expert evidence in cot death cases. Such programmes are the eyes and ears of a questioning democracy.

The BBC also plays a unique role in supporting the democratic process in the devolved nations of the UK – it is the only broadcaster to provide regular live coverage of the proceedings of the Scottish Parliament, and the Welsh Assembly<sup>12</sup>.

The BBC's commitment to rigour, impartiality and accuracy across the full range of its journalism must be total. For this reason, we have taken the findings of the Hutton Inquiry into the death of Dr David Kelly very seriously and are implementing a range of measures, including the recommendations of the Neil report, to strengthen editorial processes. Research conducted since the publication of Lord Hutton's report suggests that the BBC remains highly trusted by the British people. But we know this trust cannot be taken for granted: it must be earned, day in and day out.

#### **1.4 The BBC's cultural value: enriching the creative life of the UK**

The BBC's second main role is cultural. Because it is free from market pressures, the BBC is able to find and nurture writers, performers, composers, producers and directors, and to give them space to create the widest possible range of high-quality, original programmes on radio, television and online. The BBC can take risks that the market cannot contemplate, and it can maintain a commitment to risk and innovation in its programmes, even in times of economic downturn.

From *State of Play* to *The Office*, *The Archers* to *EastEnders*, *Glastonbury* to *The Proms*, the BBC aims to provide memorable programmes which celebrate our culture and capture the spirit of the age. Over 85% of the BBC's output is British-made, reflecting the lives and tastes of our society.

As a result of this investment, the BBC is one of the UK's major cultural forces – in some fields *the* major cultural force. It supports and nourishes many forms of artistic endeavour. Alongside Arts Council England, the BBC is the biggest patron of the arts in the UK. The BBC also has an enduring commitment to new writing, and commissions more new works than any other organisation in the UK. *Under Milk Wood*, *Shadowlands*, *Truly Madly Deeply*, *Pennies from Heaven* and *Billy Elliot* all started life as BBC commissions. The BBC employs more actors, directors and writers than any other British organisation.

*"I owe my career to the BBC, which provided the stability, continuity and opportunities I needed when I was developing as a film director."*  
Stephen Frears, film director, 2004

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<sup>12</sup> The BBC produces coverage of the Welsh Assembly on behalf of S4C2

Radio 3 is the biggest commissioner of new music in the world. In recent years Radio 1 helped launch the careers of artists such as Coldplay, The Darkness and Franz Ferdinand, and is the only UK radio station to offer a comprehensive advice and information service with its *One Music* website. BBC music events – from the *BBC Young Musician of the Year* to Radio 3's Awards for World Music and Radio 2's Folk Awards – celebrate new talent and honour established composers and performers. In addition, the BBC supports five orchestras across the UK.

Drama series like *EastEnders*, *The Archers* and *Casualty* are a vital part of the UK's popular culture, opening up opportunities for new writers, actors and directors. They are part of a long-standing tradition of well-made, well-loved programmes that are relevant to the lives of a wide range of diverse audiences. They frequently tackle important social issues in a responsible and accessible way.

### Some programmes to remember 1950–2004

	Factual and Sport	Drama	Comedy and Entertainment
<b>1950s</b>	<ul style="list-style-type: none"> <li>- Tonight</li> <li>- Zoo Quest</li> <li>- Today</li> <li>- The Sky at Night</li> <li>- Grandstand</li> <li>- Panorama</li> <li>- Your life in their hands</li> <li>- From Our Own Correspondent</li> </ul>	<ul style="list-style-type: none"> <li>- Under Milk Wood</li> <li>- The Archers</li> <li>- Dixon of Dock Green</li> <li>- The Quatermass Experiment</li> <li>- Nineteen Eighty-Four</li> <li>- The Grove Family</li> <li>- Wuthering Heights</li> <li>- Sherlock Holmes</li> </ul>	<ul style="list-style-type: none"> <li>- Listen with Mother</li> <li>- The Goon Show</li> <li>- Hancock's Half Hour</li> <li>- Blue Peter</li> <li>- This is Your Life</li> <li>- Animal, Vegetable, Mineral?</li> <li>- Crackerjack</li> <li>- Juke Box Jury</li> </ul>
<b>1960s</b>	<ul style="list-style-type: none"> <li>- Civilisation</li> <li>- Nationwide</li> <li>- Horizon</li> <li>- World Cup Final, 1966</li> <li>- Omnibus</li> <li>- Match of the Day</li> <li>- Tomorrow's World</li> <li>- The Great War</li> </ul>	<ul style="list-style-type: none"> <li>- Cathy Come Home</li> <li>- Z Cars</li> <li>- Up the Junction</li> <li>- Culloden</li> <li>- Dr Finlay's Casebook</li> <li>- Maigret</li> <li>- Dr Who</li> <li>- The Forsyte Saga</li> </ul>	<ul style="list-style-type: none"> <li>- Till Death Us Do Part</li> <li>- Round the Horne</li> <li>- Dad's Army</li> <li>- Just a Minute</li> <li>- That Was The Week That Was</li> <li>- Monty Python's Flying Circus</li> <li>- Top of the Pops</li> <li>- Steptoe and Son</li> </ul>
<b>1970s</b>	<ul style="list-style-type: none"> <li>- Life on Earth</li> <li>- Newsbeat</li> <li>- The Ascent of Man</li> <li>- Newsround</li> <li>- File on 4</li> <li>- Arena</li> <li>- Question Time</li> <li>- Young Musician of the Year</li> </ul>	<ul style="list-style-type: none"> <li>- The Six Wives of Henry VIII</li> <li>- Poldark</li> <li>- I, Claudius</li> <li>- Pennies from Heaven</li> <li>- Tinker, Tailor, Soldier, Spy</li> <li>- Colditz</li> <li>- The Onedin Line</li> <li>- Grange Hill</li> </ul>	<ul style="list-style-type: none"> <li>- Porridge</li> <li>- Fawlty Towers</li> <li>- The Hitchhiker's Guide to the Galaxy</li> <li>- John Peel: Dark Side of the Moon</li> <li>- Last of the Summer Wine</li> <li>- I'm Sorry I Haven't a Clue</li> <li>- The Fall and Rise of Reginald Perrin</li> <li>- The Old Grey Whistle Test</li> </ul>
<b>1980s</b>	<ul style="list-style-type: none"> <li>- The Living Planet</li> <li>- In The Psychiatrist's Chair</li> <li>- Live Aid</li> <li>- Olympics: Torvill and Dean</li> <li>- The Royal Wedding</li> <li>- Real Lives</li> <li>- Newsnight</li> <li>- Crimewatch</li> </ul>	<ul style="list-style-type: none"> <li>- EastEnders</li> <li>- The Singing Detective</li> <li>- The Chronicles of Narnia</li> <li>- The Lord of the Rings</li> <li>- Edge of Darkness</li> <li>- Boys from the Black Stuff</li> <li>- Tumbledown</li> <li>- Tenko</li> </ul>	<ul style="list-style-type: none"> <li>- Only Fools and Horses</li> <li>- Blackadder</li> <li>- Whose Line is it Anyway?</li> <li>- Proms in the Park</li> <li>- Steve Wright on Radio 1</li> <li>- The Day Today</li> <li>- The Lenny Henry Show</li> <li>- Yes Minister</li> </ul>
<b>1990s</b>	<ul style="list-style-type: none"> <li>- The Nazis – a warning from history</li> <li>- The Human Body</li> <li>- Walking with Dinosaurs</li> <li>- Sister Wendy's Odyssey</li> <li>- The Death of Yugoslavia</li> <li>- Broadcasting House</li> <li>- Home Truths</li> <li>- Letter to Daniel</li> </ul>	<ul style="list-style-type: none"> <li>- Middlemarch</li> <li>- Pride and Prejudice</li> <li>- Shooting the Past</li> <li>- Our Friends in the North</li> <li>- Spoonface Steinberg</li> <li>- Silent Witness</li> <li>- House of Cards</li> <li>- Ballykissangel</li> </ul>	<ul style="list-style-type: none"> <li>- Men Behaving Badly</li> <li>- Have I Got News for You</li> <li>- Absolutely Fabulous</li> <li>- Goodness Gracious Me</li> <li>- The Wrong Trousers</li> <li>- One Foot in the Grave</li> <li>- The Jonathan Ross Show</li> <li>- Dead Ringers</li> </ul>
<b>2000 – 2004</b>	<ul style="list-style-type: none"> <li>- The Blue Planet</li> <li>- The Hunt for Britain's Paedophiles</li> <li>- Voices</li> <li>- The Secret Policeman</li> <li>- Sydney Olympics</li> <li>- Dawn Chorus Day</li> <li>- What the Romans did for us</li> <li>- A History of Britain</li> </ul>	<ul style="list-style-type: none"> <li>- Conspiracy</li> <li>- The Lost Prince</li> <li>- Spooks</li> <li>- The Way We Live Now</li> <li>- Nicholas Nickleby</li> <li>- The Gathering Storm</li> <li>- Clocking Off</li> <li>- State of Play</li> </ul>	<ul style="list-style-type: none"> <li>- The Office</li> <li>- Marion and Geoff</li> <li>- One Big Sunday</li> <li>- Little Britain</li> <li>- Late Junction</li> <li>- The Kumars at No 42</li> <li>- 3 Non-Blondes</li> <li>- Strictly Come Dancing</li> </ul>

People value popular, entertaining programming highly and consider it one of the two key elements of public service broadcasting, alongside news<sup>13</sup>. They value a 'balanced diet' of programming on public service channels, of which entertainment is a key part. BBC programmes aim for a spark of difference by encouraging talent to take creative risks, developing new formats, such as *Strictly Come Dancing* and *The Weakest Link*, harnessing new technologies, such as *Test the Nation* and *Celebdaq*, and using entertainment skills to broaden the appeal of other genres, such as *Have I Got News For You*.

The BBC makes a particularly important contribution to British comedy. Comedy is a difficult genre in which to succeed – the level of risk involved makes it a challenging area for commercial broadcasters. Because of its freedom from commercial pressures, the BBC can stick with slow-starting comedies, such as *Only Fools and Horses*, or back an unlikely-sounding idea such as *The Office*. The BBC invests over £80m a year in British comedy – during one week in November 2003, 15 out of 18 scripted comedies showing on UK terrestrial television were on the BBC. From *Hancock*, *Steptoe and Son* and *Till Death Us Do Part* to *My Family*, *I'm Sorry I Haven't a Clue*, *Absolutely Fabulous* and *Little Britain*, BBC comedy has entered our language and provided shared reference points.

*"Here's the thing – the BBC's record in acted comedy has been, and still is, miraculous ... the history of British TV comedy really is very nearly the history of comedy on the BBC."*

Richard Curtis, writer *Love Actually*, *Four Weddings and a Funeral*, *The Vicar of Dibley*, *The Guardian*, 2000

The BBC brings British history, art, drama and literature alive for mass audiences. Classic adaptations like *Pride and Prejudice*, *Wives and Daughters*, *The Old Curiosity Shop* and *The Pallisers*; the Radio 3 Shakespeare season; poetry on Radio 4; Simon Schama's *A History of Britain* and Andrew Graham-Dixon's *A History of British Art*, all refresh the cultural memory of the UK by opening up our heritage to successive generations. Radio 3 and BBC Four regularly partner with theatres to widen the audience for award-winning productions by broadcasting plays like *Medea*, *Copenhagen*, *Elmina's Kitchen*, *Richard II* and *The Permanent Way*.

Recent research by Ofcom<sup>14</sup> shows sport to be second only to news when the public were asked which genres they most valued from the point of view of society. The BBC plays a central role in the sporting life of the UK. It acts as a public space for a range of sporting events that many people feel are national assets – from European Championship football matches to Wimbledon and Six Nations rugby. It acts as a forum for debate through programmes like *606* on Five Live. It is able to take minority sports and stay with them to turn them into national events such as the World and UK Snooker Championships and the London Marathon. It covers more minority sports than any other terrestrial broadcaster, investing in grass roots initiatives through *Sport Relief* and *Sport Action*, and showcases disabled sport through the *Disability Sport* website and coverage of the Paralympics.

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<sup>13</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?* para 84, 2004

<sup>14</sup> *Ibid*, Figure 33

*“Only one broadcaster tracked my career from beginning to end – the BBC. They ensured my fifth Olympic gold medal became a cherished public moment, not just a personal one.”*

Sir Steve Redgrave, Olympic oarsman, 2004

The BBC’s cultural contribution is recognised by the British public: 75% of people believe the BBC is important to British culture, and services like Radio 3, Radio 2, Radio 1 and BBC Four are particularly highly valued for their commitment to music and the arts<sup>15</sup>.

However, the BBC has work to do to meet the changing expectations and demands of its audiences. Though they value the familiar and consistent, many people want to see more risk-taking and change, particularly in British television. Some feel that television as a whole is not sufficiently innovative and are irritated by its lack of range<sup>16</sup>. They want more home-grown drama and British comedy, and do not want to see the BBC using formats or styles they regard as copied or derivative. We take these concerns seriously and are responding with a range of ideas. Chapter 3 sets out our creative ambitions.

## 1.5 The BBC’s educational value: extending horizons

The BBC’s third contribution to public value is as an educator. The educational power of broadcasting was first recognised in the 1920s when it was found that children who listened to BBC radio performed better at school. Since then, the BBC has devoted significant resources to programmes whose sole purpose is to advance understanding, both for students and schoolchildren and for the wider public. This educational vocation is in the BBC’s bloodstream and informs its attitude to all its output.

Over the decades, many series – like *Civilisation*, *Life on Earth* and *Walking with Dinosaurs* – have been used by teachers to bring learning to life. Recently, such series have been able to offer the added benefits of the internet. Many of the BBC’s primetime factual series are accompanied by ‘find out more’ learning opportunities that encourage people to develop their knowledge and skills and enable programmes to be exploited in educational ways. For example, the natural history series *The Blue Planet* spawned many educational spin-offs, from beachcombing guides to 4,000 people undertaking marine biology degree courses.

The BBC makes complex subjects accessible, helping to improve general levels of knowledge and understanding. The science strand *Horizon* addresses molecular biology, particle physics and pure mathematics with a degree of creativity and panache that wins large audiences and many awards. Series such as *Walking with Beasts*, *A History of Britain*, *Pompeii: The Last Day*, *Seven Wonders of the Industrial World* and *In Our Time* aim to bring subjects like palaeontology, history, archaeology, philosophy and engineering alive for mass audiences in primetime.

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<sup>15</sup> BBC/Taylor Nelson Sofres (TNS), *Licence Fee Value survey*, 2004

<sup>16</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?*, para 121, 2004

The BBC plays a particular role in the stimulation and education of children. Broadcasting advertising-free programmes that encourage children to learn has always been a core function – from the 1920s series *Kiddies Corner* to *Listen with Mother*, *Play School* and today’s cross-genre multimedia range on CBBC and CBeebies, the BBC’s new digital television channels for children. These are supported by well-used online services, with the CBeebies site alone generating nearly 100m page impressions per month.

Increasingly, the BBC’s educational efforts are made in partnership with other organisations. One of the oldest partnerships – with the Open University – has encouraged more than two million people to enrol since 1971. In 2003 alone, 165,000 people enrolled on OU courses in the UK. The University is also a major partner of the BBC in making factual programmes.

People rely on this rich educational resource. The majority of the public regard the BBC as a learning resource for the nation<sup>17</sup>. BBC One and BBC Two are seen as the best channels for education in the UK by 63% of viewers who choose to watch educational programming<sup>18</sup>; six out of ten primary school teachers use BBC Schools television; in secondary schools, 69% of year 11 pupils<sup>19</sup> and 64% of their teachers use *BBC Bitesize*<sup>20</sup>, the BBC’s online revision service for GCSE students.

However, the BBC needs to make sure that its education services reach all parts of society and particularly those who may have been left behind by formal education. In Chapter 3, we set out some ideas for how the BBC can build greater educational value from its range of services.

## 1.6 The BBC’s social value: connecting and uniting communities

The BBC’s fourth contribution to public value is in connecting people at many different levels. The BBC has a deep commitment to the UK’s nations, regions and localities. Its portfolio of programmes for different audiences, its physical presence throughout the UK and its wide and fast-growing range of grass roots activities reflect the diversity of the country, foster a sense of belonging and encourage participation. The BBC also has a particular responsibility to the UK as a whole – for bringing people together to share events of national importance.

The network of shared values, traditions and experiences that people hold in common is sometimes known as *social capital*. It helps to build higher levels of trust, tolerance and shared understanding that can make many aspects of a society’s operations, from business and politics to people’s daily lives, easier and more productive. A recent UK study<sup>21</sup>, commissioned by the BBC from an independent economist, suggests that broadcasting in the UK may be a powerful contributor to social capital. It can attract diverse audiences by age, sex, race or class to powerful shared experiences that help to forge connections and build trust.

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<sup>17</sup> BBC Pan-BBC Tracking Study (PBTS), 2003

<sup>18</sup> Ibid

<sup>19</sup> BMRB/BBC Children’s Education Pupil Tracker, 2003

<sup>20</sup> NOP/BBC Children’s Education Annual Secondary Schools survey, 2003

<sup>21</sup> Martin Brookes, *Watching Alone: Social Capital and Public Service Broadcasting*, 2004

People turn to the BBC to share public moments they will remember all their lives. Events such as the Olympics, the Jubilee parties and the Queen Mother's funeral unite British people in a common experience. Nearly 20 million people watched the BBC's coverage of the funeral of the Princess of Wales. Over 70% of the population watched the 2002 Commonwealth Games held in Manchester<sup>22</sup>. *EastEnders* is watched by people of all ages, all social classes and, unusually compared with American TV, all ethnic backgrounds, providing a basis for talking points between groups that may otherwise lack common frames of reference. Popular entertainment programmes like *Wake up to Wogan* and *The National Lottery*, along with coverage of major sports events from the Grand National to the FA Cup, can be strong contributors to social capital for the UK as a whole.

The BBC's social role is equally important for the nations, regions and communities of the UK. In Scotland, Wales and Northern Ireland, the BBC has sought to support the new democratic and cultural needs created by the process of devolution over the past decade. It now invests some £70m more each year in the nations and regions than in 2000. Its goal has been both to build understanding of the new, devolved institutions of Scotland, Wales and Northern Ireland, and to celebrate and support each nation's rich and diverse culture – from the only Scottish soap, *River City*, to unique support for the UK's indigenous languages. The BBC runs the only national Welsh language radio service, Radio Cymru, and has a long-standing partnership with S4C in Welsh language television. It provides speech-led national radio services for Scotland, Wales and Northern Ireland, connecting audiences and enabling dialogue across each nation. In entertainment, drama and factual programming, the BBC reflects the distinctive voices and experiences in each of the three nations.

Across the English regions, the BBC's network of 40 local radio stations and 12 full regional television services complements the private sector and is a powerful national asset. It provides civic and cultural support to communities all over the country. It helps to reflect their concerns, celebrate their cultures and build a sense of place. Reduced investment and editorial commitment from ITV in recent years mean that, for regional television news, people turn first and foremost to the BBC.

The public nature of the BBC means it can guarantee universal access to vital information. For example, local radio teams in York and Hereford & Worcester worked round the clock to provide information and support to listeners during the floods of 2001. In the same year, BBC Radio Cumbria and BBC Radio Devon were the main means of communication for farmers in each region during the foot-and-mouth outbreak. More than ten million people listen to the BBC's local radio services across the UK every week, four million of whom listen to no other BBC radio service and two million to no other radio service at all.

The BBC's local and regional services also offer a way of giving a voice to people – through phone-ins, public events and direct involvement with local communities. Examples include local radio's *Voices* project, which involved nearly 50 communities across the UK, and the BBC's 2002 *All Together Now* initiative in which children from

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<sup>22</sup> BARB, TNS/Infosys, 2002



The BBC's challenge for the future will be to respond to public demand for even more local coverage, to provide a trusted forum for communities of interest of many sorts, and to find ways to reflect the different cultures of the UK more powerfully to a wider British audience. Again, Chapter 3 sets out our ideas for the future.

## 1.7 The BBC's global value: supporting the UK's role in the world

The fifth area of BBC public value is its international contribution. The BBC is the best known and most respected voice in international broadcasting and is one of the most effective means of communicating the UK's values and culture across the globe. The BBC brand has come to stand for impartiality, integrity, tolerance and quality. This gives the UK a special reputation in the emerging global community that is of irreplaceable value.

The BBC World Service is the most trusted international provider of news and analysis in every one of 15 key countries surveyed<sup>23</sup>. It is available on radio all over the world and speaks to around 150 million people in 43 languages. It is part of their daily listening and a lifeline for millions in times of war, political crisis or natural disaster. BBC World television is available in 260 million homes worldwide and in more than 200 countries. The BBC's international news websites now record over 230 million page impressions a month. These services are supported by the largest network of bureaux and correspondents of any global news broadcaster.

In the US, 40% of opinion formers in Boston, New York and Washington turn to the BBC for news every week; in Kabul, six out of ten listen to the BBC every day; the Pashtu and Persian services were the only sources of reliable news before, during and after the war in Afghanistan, listened to even by the Taliban; in India, BBC World is the top international news service; usage of the BBC's award-winning international news websites has grown 100% in just a year. During the Iraq war, the BBC's news services provided a unique global perspective to audiences around the world and were highly valued for their objectivity, accuracy and independence.

*"The BBC World Service is perhaps Britain's greatest gift to the world this century."*

Kofi Annan, UN Secretary-General, 1998

Increasingly, the BBC's international news services engage people in dialogue about the key international issues facing the world. As well as providing trusted information, the BBC promotes global conversations on important issues in an intelligent and tolerant manner which can help to build understanding in an unstable world. The BBC's multimedia services come together regularly to host interactive global debates with leading figures of the day such as President Putin of Russia, President Hamid Karzai of Afghanistan and President Musharraf of Pakistan. During the Iraq war, the *Talking Point* debate forums received over 250,000 emails from around the world. In partnership with the UK government, international agencies and NGOs, the BBC World Service Trust supports the development of public service broadcasting

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<sup>23</sup> TNS, FMR, Oxford Research International, commissioned by BBC World Service, 2003/04



worldwide and spearheads health, welfare and social programmes. The Trust has trained hundreds of journalists and producers around the world and is currently helping to reconstruct public service broadcasting in Afghanistan, Bosnia and Iraq.

Through its commercial activities abroad, the BBC is able to showcase the best of UK creativity, culture and talent to global audiences. BBC Worldwide currently licenses some 40,000 hours of programming abroad annually, accounting for around 50% of UK total television exports<sup>24</sup>, and broadcasts a portfolio of commercial television channels around the world. In the US, BBC America, now available in 40 million US homes, is making household names of British talent. The BBC's programmes won a record 30 international awards last year; this year *The Office* won two Golden Globes, the first ever for a UK comedy. *Absolutely Fabulous* has been licensed to more than 100 countries, and by selling natural history shows such as *The Blue Planet* and *The Life of Mammals* to broadcasters all over the world, the BBC has helped establish the UK as the world's leader in this genre.

## 1.8 The BBC's economic value

The BBC is not always thought of in terms of its contribution to the economic health of the UK – and it is right that this should not be its primary goal. Its overriding purpose is to serve people as individuals and as citizens. However, through its creative investment, its stability of funding through fluctuating economic cycles and its risk-taking, it makes a substantial and measurable contribution to the supply side on which the UK's creative and cultural life depends.

First and foremost, the BBC is a leading investor in the UK's creative economy. In 2003, it invested almost £1bn in the creative industries, including over £300m spent with external producers. In addition, for the reasons already set out, the BBC stimulates greater investment in the UK's creative economy by other broadcasters, who spend more on original British programmes than they otherwise would.

The BBC's second contribution to the UK's media economy is as its main investor in skills and training. The BBC spends over £40m a year on training in the craft skills of broadcasting – including camera, studio operations, writing, producing and directing, lighting, make-up and design. Because the BBC is a public corporation, it regards its delivery of training on behalf of the industry as positive, contributing to a stronger creative economy for the nation as a whole. A private broadcaster would not see it this way – given the mobility of the workforce, a training budget of this scale would be regarded as aiding the competition and would not be sustained.

The BBC recruits around 200 trainees a year, developing them to industry standards – more than five times the rest of the industry put together. An estimated 30-40% of programme makers in UK commercial broadcasters are BBC-trained. Freelancers are given training support through subsidised workshops and free online training modules, and the BBC runs specific programmes for the commercial broadcasters, many of whom depend on BBC training to maintain their craft skills.

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<sup>24</sup> BBC estimate based on British Television Distributors Association figures, 2003

Third, the BBC is a pioneer in new technology. The BBC's Research & Development arm has helped win a place for the UK at the forefront of broadcasting technology and engineering, recognised by seven Queen's Awards for Industry and four Emmys. Working with partners, the BBC has been responsible for technical breakthroughs in many areas including the first fully compliant digital TV receiver chip, wireless digital cameras, subtitling, audio-description services and digital audio broadcasting (DAB). The BBC is currently developing plans to produce all its television output to meet High Definition Television (HDTV) standards by 2010.

The BBC's fourth contribution – and one of the most valuable at the current time – is in opening up new media markets. In earlier decades, it helped to develop markets ranging from FM radio to colour television. In the current Charter period, it has been one of the main drivers of free-to-view digital television and digital radio via its new digital services. The BBC has also helped to drive internet usage. By June 2004, there were 4 million Freeview homes and over 500,000 digital radios in use. 1.5 million adults listen to BBC digital radio services each week with almost a quarter of people buying a digital radio to receive particular services citing BBC 7 as the specific reason for doing so<sup>25</sup>.

*“The BBC's introduction of the new and exclusive DAB programmes, especially BBC 7 and BBC Five Live Sports Extra, generated enormous consumer interest in the new broadcasting era and this, linked to the assurances that the BBC gave regarding the installation of the new transmitters, persuaded us to progress the next phase of our DAB product investment.”*

Leslie Burrage, chief executive of Roberts Radio, 2004

The BBC can play a particularly powerful role when the commercial market fails in an area of high public value. The BBC's successful intervention in digital terrestrial television (DTT) to create Freeview was an example of this (see box overleaf). Had DTT collapsed along with ITV Digital, which was a likely outcome without public intervention, digital switchover could have been delayed indefinitely, with real social and economic costs for the UK. The high-risk nature of broadcasting investment will continue to make public intervention of this sort necessary from time to time for the foreseeable future. As the success of Freeview has shown (Figure 4), the BBC can be highly effective at such times, largely because of its ability to shoulder risk and take a lead in the industry, and because of the trust people have in its brand.

Of course, the BBC's positive contribution to the wider media economy must be set against the impact it might have in reducing audiences for some commercial services. Any calculation of the economic value of a BBC service therefore needs to be a 'net' measure. Nonetheless, the evidence is that the BBC makes a strongly positive net contribution to the commercial health of the UK media sector. The UK leads the world in digital television and radio, is the largest television programme exporter outside the US and has the most vibrant independent television sector in Europe – and all in spite of the existence of the BBC and a tradition of strong public intervention. However, the BBC recognises that in future it needs to be increasingly sensitive to the impact of its activities on commercial companies. Our proposals in this area are set out in Chapter 4.

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<sup>25</sup> Claritas, research commissioned by the Digital Radio Development Bureau (DRDB), 2004

## The story of Freeview

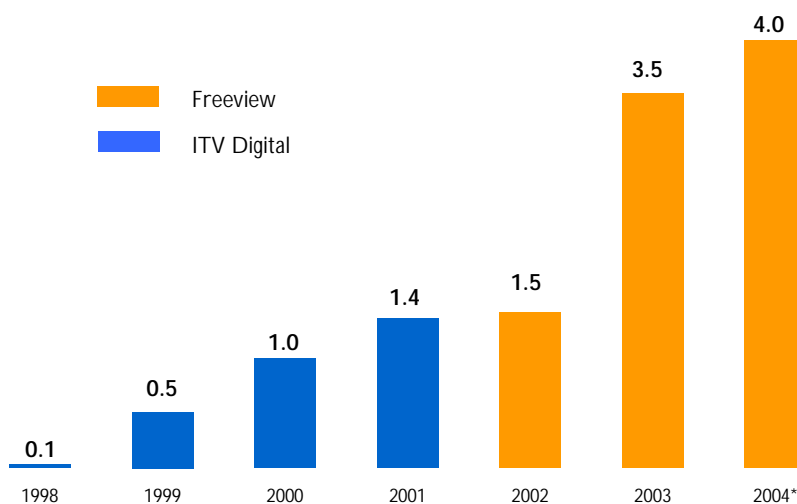
In mid-2002, ITV Digital, the owner of the UK's digital terrestrial television platform (DTT) was put into administration. After a competitive tendering process, the licences were awarded to the BBC and Crown Castle who, in partnership with BSkyB, launched Freeview. Freeview offered up to 30 television channels, over 20 radio stations and a range of interactive services, with a one-off payment and no subscription. For the first time, consumers were able to receive free-to-view digital television.

Before the collapse of ITV Digital, take-up of DTT had stalled at 1.2 million homes (with a further 0.2 million free-to-air homes) and it had declined to just 0.7m before the launch of Freeview. Since the launch of Freeview in October 2002, DTT take-up had grown to 4 million homes in just 20 months, making it the fastest-growing consumer electronics product ever in the UK.

Take-up of digital terrestrial television 1998 to 2004

Figure 4

Households (m)



Households with digital terrestrial television on any set. \* June 2004

Source: 1998-2002: ZenithOptimedia 'UK Television Forecasts', August 2003, 2003-2004: BBC estimates

## 1.9 The limitations of the commercial marketplace

We have set out a range of ways in which the BBC, as a publicly funded broadcaster, creates public value for UK society. The next question must be whether public intervention is needed to secure it. Could the same level of public value be achieved through the workings of free media markets, without public intervention or funding?

Clearly, commercial broadcasters can and do create public value. Sky News is a high-quality news service that brings reliable, impartial news to over ten million homes in the UK. Discovery produces high-quality science and history programmes that are educational. Public value is not the preserve of publicly funded or regulated organisations; commercial organisations are important contributors.

However, for reasons rooted in the economics of broadcasting, the commercial broadcasting market alone will not produce the kind and range of programmes that society would ideally want. In the language of economists, broadcasting is subject to *market failures*. This is sometimes misunderstood to mean that, without intervention, there would be catastrophic collapses and bankruptcies. Though that can sometimes be the case (as with the collapse of ITV Digital), market failure is usually a far more subtle phenomenon. Markets still work, but do not produce the best outcome. Public value is less than it should be. Society's resources are not allocated as well as they might be. Some consumers go without.

Three market failures in particular apply in broadcasting: broadcasting as a public good; broadcasting as a merit good; and the external benefits associated with broadcasting.

- **Broadcasting as a public good.** Broadcasting has an unusual but crucially important characteristic, which is that it can be supplied to many people at the same cost as to a few people. There is no limit to the number of people who can consume it. This is the dominant characteristic of a *public good*. Other public goods include street lighting, defence and roads. *The Blue Planet*, for example, cost £6m to make, but it costs no more to provide to 25 million homes than to 250. The most efficient price for a public good is zero. If it is charged for, some people will not choose to buy it, even though it would cost society nothing to give it to them. As a result, there is a loss of consumer welfare for society as a whole. This means that public funding for broadcasting, based on a universal fee, leads to a more efficient allocation of resources than the free market would produce. As long as broadcasting is a public good, there will be a case for public intervention on pure efficiency grounds.
- **Broadcasting as a merit good.** The second market failure is that broadcasting can bring benefits to people that they may only recognise afterwards. This is particularly true for children and young people – programmes that may encourage them to think about a new career or try out a new interest may not seem appealing in advance. *Celebdaq* introduced many young people to the mechanics of financial markets while *Great Britons* revitalised many people's interest in British history and the *Hitting Home* series raised awareness of the often hidden problem of domestic violence. Broadcasting is what economists call a merit good, and free markets do not supply enough merit goods.

These two types of market failure will tend to prevent free broadcasting markets from properly satisfying people's needs as individuals and consumers. The third market failure affects the ability of free markets to serve people effectively as citizens.

- **The external benefits of broadcasting.** We have already talked extensively about the broader benefits that broadcasting can bring to society, particularly when it is delivered universally and equitably – such as a better educated or healthier society, or a more tolerant culture. These benefits are sometimes known as *externalities* – the benefits that you may derive from a service even if you don't consume it. Again, free markets deal badly with externalities. They have no way of pricing them, so tend to underproduce the products and services that create

them. Patrick Barwise, Professor of Management and Marketing at London Business School, has made the observation that the broadcasting market is small compared to the importance it has in our lives. The externalities swamp the scale of the market, and need to be given serious consideration in broadcasting policy.

Some people argue that some or all of these market failures in broadcasting are disappearing in the new digital world. They believe that technology advances are making the broadcasting market more like normal consumer markets, in which all needs can be met by commercial companies without intervention. For example, Ofcom, though in agreement about the ongoing need for public service broadcasting to serve people as citizens because of externalities, believes that the public good problem will be solved in a digital world. Its PSB television report states that “... *We believe that in future, public service broadcasting will no longer be needed to ensure that customers can buy and watch their own choice of programming.*” They add that “*The public good problem can largely be resolved (using) encryption and conditional access systems.*”<sup>26</sup>

However, our view is that the public good characteristics of broadcasting are likely to last for the foreseeable future, if not forever, and are unaffected by the technical possibility of excluding people using encryption. Even in a fully digital world, broadcasting will continue to be a public good – that is, many people can watch and listen to it for the same price as only a few. In broadband, the costs of distributing content have fallen dramatically in the last three years and will carry on falling. Meanwhile, high-quality British documentaries, dramas and comedies will continue to be expensive to make, with the same merit good qualities as in the analogue world. Using encryption to charge people for watching these programmes would therefore result in some people being excluded from content that would cost nothing to give them, resulting in a loss of consumer welfare for society as a whole. This means that the purely economic case for the universal provision of public service content, free at the point of use, will be as salient in the new media world as in the old.

In this debate, it is important not to confuse the possibility of charging for broadcasting with economic desirability, a mistake that can be traced back to the 1986 Peacock Report. While it is true that some public goods can be charged for, and that television broadcasting is beginning to move into that category because of the development of encryption technology, this fact does not of itself change the key public characteristics of broadcasting. The important point is that broadcasting is, and will remain, a public good, and that excluding people on grounds of price would make society worse, not better off.

## 1.10 Can public value be measured?

So far, we have argued that the existence of the BBC as a publicly funded broadcaster creates substantial public value for our society, and that the commercial market alone would not create public value on this scale. The next crucial question is whether public value can be measured, and if so, is it worth the price of the licence fee, currently £121 per household per year?

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<sup>26</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?*, para 155, 2004

In a perfect world, it should be possible to add up all the types of public value we have described in these pages and compare them with the cost of the licence fee. The problem lies in how to measure them. How does society put a price on the greater tolerance and respect that comes from having a public place for national debate? Or the cultural value of universal access to a much-loved symphony, or a ground-breaking play? Or the educational value of science and history programmes accessible to all? Markets are notoriously bad at pricing these types of benefit.

Despite these difficulties, we believe it is worth trying to find a more rigorous way of assessing public value than in the past. Our proposal uses the definition of public value we gave earlier in this chapter, and is based around the three elements of individual, citizen and economic value. We have developed measurement approaches for each:

- *First, individual value.* The value of BBC services to individuals is relatively easily measured. The individual value that people can derive from BBC programmes will depend on their quality, reach and impact. These indicators can and will be tracked. But in addition, it is possible to go further by asking people how much they would be prepared to pay for BBC services, compared with the licence fee cost of providing them. In assessing individual value, we can use techniques like willingness to pay and conjoint analysis. These measures will be imperfect, and may not capture the merit good qualities of some programmes, but they can provide good indicators.
- *Second, citizen value.* This is the most difficult element of the BBC's public value to measure. It should be thought of as an uplift over and above individual value – that is, the additional value that people recognise extends beyond their personal gain, perhaps even from services they don't themselves use. Again, there are some useful indicators – the reach of a service among disadvantaged groups, or evidence of its impact beyond the broadcast programme, such as follow-up educational courses, or participation in sporting or musical events. However, these indicators will not answer the question 'how much should the BBC spend to achieve this outcome?' To do that, other methods are needed. Asking people to put a value on the BBC's wider social contribution is one method. Another is to estimate the spending that another public body would need to make to achieve the same outcome. Take, for example, the contribution that the BBC can make to building trust and tolerance between the UK's different cultures through comedies like *Goodness Gracious Me*, portrayal of a diverse UK in dramas like *Casualty*, and documentaries about racial issues. If the BBC did not exist, other tools of public policy might be needed to achieve the same ends – perhaps through race agencies or the education system – or society would be worse off. We can estimate what this alternative cost would be and compare it to how much the BBC actually spends or would spend.
- *Third, economic value.* Measuring economic value is relatively straightforward, and involves well-tried techniques of market impact analysis. Economic analysis can be used to assess both the positive and economic value of the BBC's activities, such as their impact on digital take-up, or their negative impact on

commercial businesses. An independent economist has conducted this analysis for all the BBC's new digital services<sup>27</sup>.

We intend to use public value as a hard-edged tool for decision-making about what the BBC should do – and, as importantly, what it should not do. To that end, Chapter 4 describes how we plan to apply a public value test to all new BBC services based on these definitions and measurements. Its aim is not to boil public service broadcasting down to a single number or equation. That is neither possible nor useful. However, we hope it can put more rigour and evidence into the evaluation of public service broadcasting that has in the past tended to be almost wholly subjective.

Whatever approach is taken in the future, the views of the British people have to be paramount. Recent research commissioned by the BBC suggests that they value the BBC's services very highly<sup>28</sup>. We found that on average, people were willing to pay £21 per month for BBC programmes and services, rather than have the BBC taken away from them, compared to the current licence fee of £10 per month. Over 80% of people said they were willing to pay the licence fee at the current price, 42% said they would pay double, and 19% said they would pay three times the current level.

This may lead one to conclude that the BBC should be switched to a voluntary subscription service, funded by those households who chose to subscribe. However, this model has serious drawbacks. Our research shows that, in order to maximise income, the BBC would need to charge a subscription price of £13 a month, which is 30% higher than the current licence fee. However, even at this level the BBC would only generate around 90% of its current income, and over one-third of homes, or 20 million people, would choose not to subscribe<sup>29</sup>. As a result, the BBC would become a service only available to those willing and able to pay. As noted earlier in this chapter, there would be a loss of consumer welfare, because it would cost nothing to provide the BBC's services to the 20 million people excluded. Moreover, the two-thirds of people who did subscribe would be paying substantially more for a narrower range of services. The BBC would become a very different kind of broadcaster, and one of its main sources of public value, its universality, would be lost.

## 1.11 A choice for the future

In this Charter Review, the UK faces a clear choice about what kind of broadcasting system it wants. Because of the arrival of encryption technology and therefore a means of charging for BBC services, subscription funding could be introduced for some or all of the BBC's services. Public funding could begin to be reserved only for a narrow range of high ground programmes that commercial companies would not offer. The licence fee could be wound down over time, and the BBC could become a private corporation. The transition could not be immediate, because too few people have access to subscription pay-television, and it might not be possible in radio at all.

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<sup>27</sup> Oliver & Ohlbaum Associates, *An assessment of the market impact of the BBC's digital TV services*, 2004, and, *The market impact of the BBC's digital radio services*, 2004

<sup>28</sup> Human Capital/Martin Hamblin GfK, *A study measuring the value of the BBC*, 2004

<sup>29</sup> *Ibid*

But the process could begin. Indeed, proposals along these lines have already been put forward for consideration as part of the Charter Review debate.

However, the outcome would be to dismantle the BBC and with it the UK's current broadcasting system. As we have sought to show in this chapter, the UK has a unique system of mixed public and private broadcasting that has been constructed over the past century on solid economic and cultural principles. It overwhelmingly reflects the lives and culture of the British people. It provides one of the most independent and trusted news services in the world. It makes learning opportunities available to all. And, because it is a universal system, it is able to bring large parts of the UK together. Once dismantled, it could never be rebuilt.

## 1.12 A changing BBC

In the rest of this document, we turn to the BBC of the future and how it will change. The BBC recognises that it needs to reform itself as an organisation in fundamental ways to meet the challenges of today and tomorrow.

The changing commercial environment means that the BBC must be able to demonstrate the public value of what it does, and take proper account of the market impact of its activities. Equally, it must recognise that its major role in the UK's creative economy gives it significant responsibilities. It needs to ensure that it can work better and more fairly with others, creating effective partnerships based on mutual respect and understanding. It needs to become a more open organisation.

In the field of governance, the BBC's system of scrutiny and accountability needs to be reformed – but in ways that retain its independence from government and commercial interests. In particular, the role of the BBC's Board of Governors must be clarified, introducing greater separation from the BBC's management. Most important of all, the BBC's programmes and services have to more than meet the expectations and needs of the British public.

Our ideas and proposals for change are set out in the following chapters. The BBC must and will move with the times, adapting to the changing technological, market and social environment. However, its commitment to representing the public interest in broadcasting – true public service broadcasting – will remain.

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This chapter has set out our case for why the BBC matters. In the next chapter, we look at the rapidly changing media landscape, and draw out its implications for public service broadcasting in the future.

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## Chapter 2: Changing media in a changing society

The UK's media world has changed dramatically and unpredictably since the BBC's last Charter was agreed nine years ago. Digital television, the internet and mobile telephony were hardly mentioned in 1995, yet all three have become part of everyday life for more than half the population of the UK. The broadcasting landscape will change just as dramatically and unpredictably over the course of the next decade. The UK is about to enter the second stage of the digital revolution.

It seems that every generation has a media revolution. For the pre-war generation, it was radio. For the post-war generation, it was television. For the young people of today, it is digital. Now, ten years into the digital revolution, it is clear that its impact will be at least as profound as the radio and television revolutions that preceded it.

In the next 10–15 years, the UK has the opportunity to become a fully digital nation. By the middle of the next decade, every home in the land could have access to digital television and radio, and the majority could be using broadband as part of their everyday lives. Broadcasting as we know it will change beyond all recognition. When this second stage of the digital revolution is complete, we will reach a new level of stability – that is, until the next major media breakthrough bursts onto the scene, the revolution of the next generation.

In this chapter, we consider what the digital world of the next decade might look like and the opportunities it might offer. We also consider the transition itself – the risks and challenges of achieving a fully digital Britain and particularly the goal of digital switchover. And finally we consider what all this means for the role of public service broadcasting. Our belief is that it will become more, not less important.

First, to put the future development of UK media in context, we look at how our society is changing.

### 2.1 Our changing society

Broadcasting has always both reflected and led changes in society. The complex interaction between broadcasting and society will continue into the next generation. In particular:

- **UK society is becoming increasingly plural and diverse.** British people are perhaps more aware of their differences than they have ever been. Differences between the generations are particularly pronounced, polarising views between young and old around issues ranging from sex and family to religion and politics. Research suggests that the monarchy, government and church are less respected and provide fewer shared points of reference, particularly among young people. Habitual deference is disappearing. Family structure is changing radically:

by 2010 single-person households will be the largest household type, accounting for almost 40% of all homes<sup>30</sup>.

- **The UK is becoming a mature multicultural nation.** Between 1991 and 2001, the ethnic population of the UK grew by 54%, compared with 4% for the total UK population; ethnic minorities now represent just under 8% of the overall population<sup>31</sup> and are projected to grow as rapidly over the next decade, particularly in urban areas. A BBC survey suggests that, as a whole, the UK appears to be more at ease with its cultural diversity<sup>32</sup>. The proportion of young people from ethnic minorities reporting racial prejudice fell from 39% to 31% between 1987 and 2002<sup>33</sup>.
- **The nature of democratic engagement is changing.** General election turnout fell from 72% of the electorate in 1972 to 59% in 2001. Young people in particular are turning away from traditional politics – it is estimated that just 39% of 18–24 year olds voted in 2001<sup>34</sup>. However, people still want to be involved with issues that concern them: in 2003 over a million people across the UK marched in opposition to the war in Iraq, while in 2002 over 400,000 protestors took to the streets of London to highlight the needs of rural communities.
- **Interest in individual self-fulfilment and achievement is growing.** Recent evidence shows that people attach greater importance to personal fulfilment than to earning more money: 42% of adults name self-fulfilment as their goal if they were allowed just one wish<sup>35</sup>. However, access to learning opportunities and the motivation to take them up remains highly unequal. 60% of adults in socio-economic groups AB have undertaken recent learning compared to only 25% of adults in groups DE<sup>36</sup>.
- **The UK is becoming more open to global influences.** The world is getting smaller. In 1980 at least 48% of Britons believed that the UK could gain 'something or a lot' from Europeans and Americans. By 2000 this figure had risen to over 75%<sup>37</sup>. The number of people taking flights overseas has increased by 73% over the past ten years<sup>38</sup>. However, the international environment is less stable now than at any time in the past 50 years. Issues of terrorism, the global economy, trade and the environment now head the global agenda. Reliable and impartial information is at a premium.
- **Despite a more global outlook, people increasingly value localness.** Nearly half of UK adults feel a need for community involvement, while over two-thirds think it important to retain local differences, such as in accents or food, up from 57% in 1983<sup>39</sup>. Political control has moved to new democratic institutions in

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<sup>30</sup> Richard Scase, *Britain in 2010: The New Business Landscape*, 2000

<sup>31</sup> Office of National Statistics, *UK Census 2001*, 2001

<sup>32</sup> BBC News Online, *BBC Race survey*, 2002

<sup>33</sup> Office of National Statistics, *British Social Attitudes*, 2003

<sup>34</sup> MORI, *Survey of Attitudes During the 2001 General Election Campaign*, 2001

<sup>35</sup> nVision/TNS, *Changing Lives survey*, 2002

<sup>36</sup> NIACE, *Adult Participation in Learning survey*, 2002

<sup>37</sup> nVision/TNS, *Changing Lives survey*, 2000

<sup>38</sup> Office of National Statistics, *Annual Abstract of Statistics*, 2004

<sup>39</sup> nVision/TNS, *Changing Lives survey*, 2002

Scotland, Wales and Northern Ireland, while several English regions are looking to elect their own assemblies.

*“People everywhere are responding to the cold wind of global competition by sinking their roots into their local community and the greater sense of permanence it seems to offer.”*

Lord Puttnam, film producer, 1999

These changes are creating challenges and opportunities for all broadcasters, public service and commercial. In particular, one-size-fits-all broadcasting, in which people from different generations and backgrounds could be content with a small range of mass broadcast channels, is becoming a thing of the past. Today’s broadcasters need a profound understanding of their audiences and how to respond to their personal and fast-changing needs. Digital technologies help to provide the means.

## 2.2 The second phase of the digital revolution

The first stage of the digital revolution, which began in the mid-1990s, has largely been about expanded consumer choice. It has brought access to many more channels on both television and radio and to a wealth of information on the internet. It has been a great success in many ways. More than half the population have digital television and the internet in their homes, mobile phones have become a staple of daily life, and the UK is rightly regarded as a digital leader around the world.

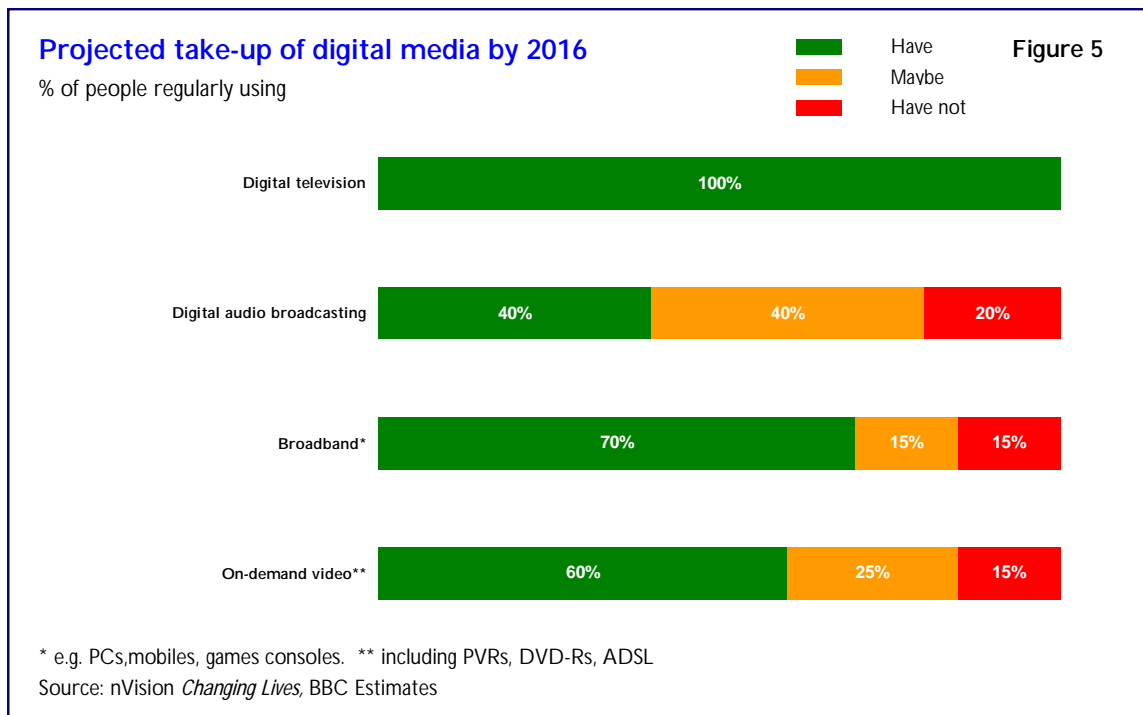
However, this first phase has left many people untouched. It has been driven largely by business models based on a minority of subscribers paying substantial subscriptions. Everyone else has been excluded – sometimes, in the case of pay-TV, from programmes and sports events that they had once been able to watch free-to-air. It has been largely about private, rather than public, value.

The second stage of the digital revolution is likely to have a far greater impact on people’s lives, with scope for substantial public as well as private value. Two factors will drive these new forms of public value. First, basic digital technologies – the internet, and digital television and radio – are likely to become nearly universal over the course of the next decade. Like the telephone, the power of digital will become progressively greater as more people join the network.

Second, broadband take-up will grow as rapidly over the course of the next decade as the internet did in the last. Currently, nearly four million UK homes have broadband access<sup>40</sup>. We expect the number of homes with a broadband connection to rise to between 15 and 20 million homes by 2016, bringing fast internet services and high-quality video to computers and other devices. Most people will have a mobile device capable of receiving high-quality video on the move (Figure 5). The broadband age will bring with it four new types of service that have the power to transform the media landscape as we know it:

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<sup>40</sup> Ofcom, *The Ofcom Internet and Broadband Update*, 2004



- **Programmes and content on demand.** Digital radio and TV audiences will soon have the same flexibility as internet users to control when and where they watch and listen to programmes. We expect seven in ten homes to be able to schedule their viewing and listening at a time that suits them best by 2016. Many will use personal video recorders (PVRs), which will be able to hold as much as 4,000 hours of content (equivalent to six months of output of a 24-hour television channel), compared to just 40 hours today (see box below). At the same time, downloading and filesharing of video and audio from the internet will become commonplace for many people.

### The impact of personal video recorders

PVRs allow users to schedule broadcast television and radio programmes to a time that suits them<sup>41</sup>.

- Sky+ and TiVo are the most popular PVR services, with over 350,000 subscribers in March '04
- 9 out of 10 Sky+ owners say they now never miss their favourite programme
- 97% of TiVo owners would recommend the device to a friend
- Viewers watch between 10% and 20% more television, according to early research
- 61% of Sky+ owners say they now watch a wider range of programmes
- Viewers in PVR households timeshift up to 70% of their viewing
- News, sport and reality shows remain predominantly live experiences
- Up to 90% of advertisements are fast-forwarded
- PVRs may cut television advertising revenue by 8% within 5 years, according to US analysts

<sup>41</sup> BSkyB, Screen Digest, Media Experts iTV Lab, JP Morgan, Cable & Satellite International, CBW Marketing Research, Forrester, Human Capital, 2004

- **Getting personal.** People increasingly expect digital services to be tailored to their individual requirements. Mobile phones, electronic programme guides, buying on the basis of peer group recommendations from *amazon.co.uk* and breaking news text alerts are just a few examples of devices and services which people can customise to make them easier to use and more relevant. This will become more common in future as successful manufacturers increasingly tailor their products to suit individual lifestyles and people embrace intelligent devices and software which recognise and act on their preferences and needs.
- **Connecting audiences and broadcasters.** Digital media is transforming relationships between audiences and broadcasters. Increasingly, viewers and listeners can vote, answer questions, shape the outcome of stories, give feedback in real time and even report breaking news. Sixty-one per cent of people who have used BBC interactive television services agree that it makes watching programmes more enjoyable<sup>42</sup>.
- **Media on the move.** Television and the internet will become as portable as radio over the next 10–15 years. The success of radio demonstrates the value of portability – its flexibility suits the pace of modern life and as a consequence it is flourishing. Companies are now producing a raft of new devices that can perform the functions of a TV, radio, computer and mobile phone rolled into one. At the same time, video will move into public places, with the growth of large screens in railway stations, city centres and shopping malls.

By the middle of the next decade, content will be available at the call of audiences, not according to the plans of schedulers. Broadcast channels will still have their place – as trusted homes for live and shared events and for first showing of new programmes. Brands will be more important than ever, to help people to find what they want in a crowded and cacophonous media landscape – but they will no longer be brands that stand only for a particular broadcast schedule. They will stand for a set of values, characteristics and promises.

The public value potential of this new media world is enormous. For example, there will be new ways for people to take part in civic society, a growing range of personalised learning tools that move at the pace and according to the interests of their users, new ways of connecting communities at many different levels, access to previously closed archives at low or zero cost, more convenient ways to watch and listen to programmes, the opportunity for more localised content and tailored services for minority groups.

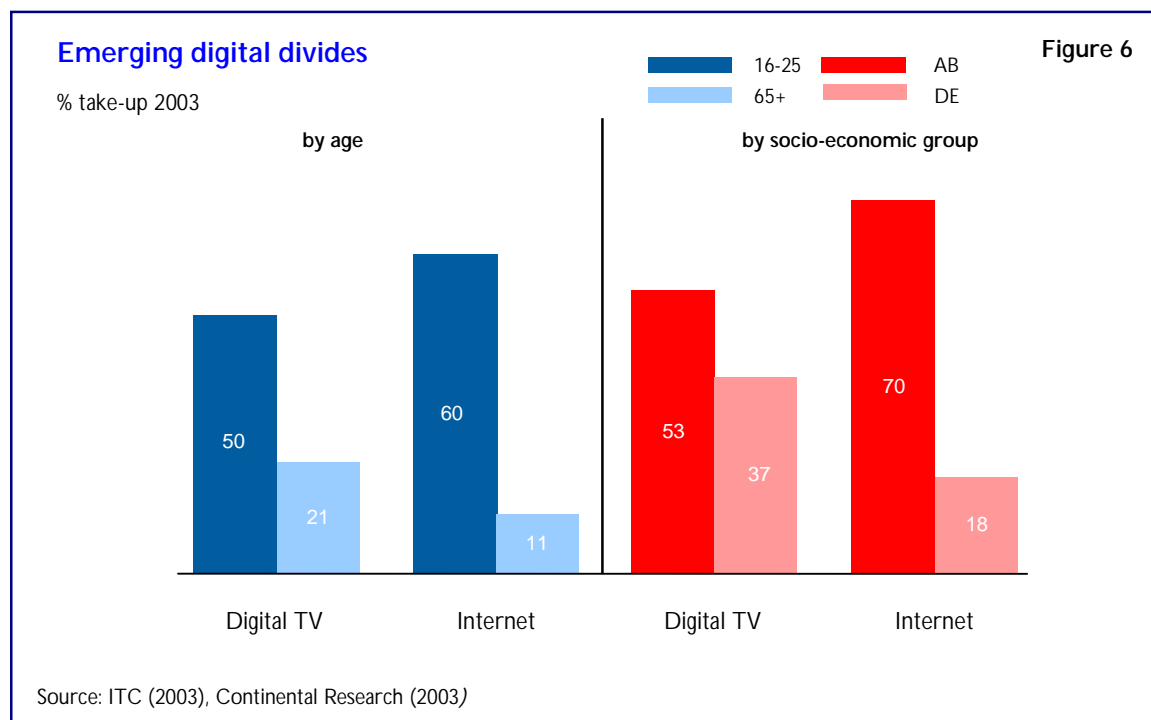
We believe these changes will be at least as dramatic as the impact of the internet and digital television over the last ten years, and have the power to transform the lives of everyone in the UK. However, this will only be possible if everyone can benefit from the new technologies.

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<sup>42</sup> Ipsos, *Quest*, 2003

## 2.3 Fragmenting audiences

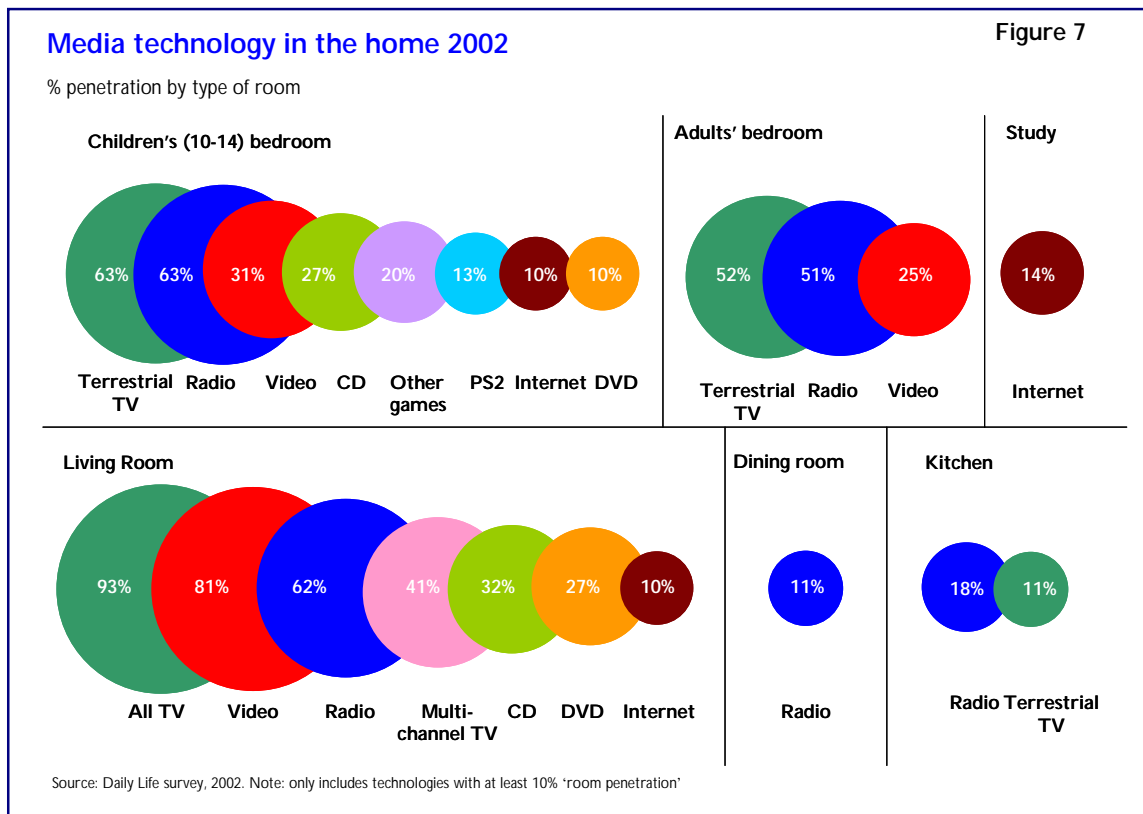
The explosion of media choice is causing audience viewing and listening to fragment. People are consuming a wider range of services across a greater range of devices. As a result, we are now in a multi-track media society, in which no two people's media behaviour is the same. The implications of this media fragmentation for our lives, individually and collectively, are potentially profound.



- **Growing digital divides.** The most serious implication of fragmenting audiences is that some people may find themselves left behind. Take-up rates of digital television and the internet have been strikingly different according to age and socio-economic group (Figure 6). Many people remain highly resistant – recent Department of Trade and Industry (DTI) research shows that as many as one in eight people say they will never be convinced to take up digital television<sup>43</sup>. If nothing is done, the gap will widen as broadband and other technologies such as High Definition Television (HDTV) develop, because the same people who have been early adopters of digital technology on television and the internet will be those who acquire broadband or upgrade to HDTV.
- **Declining importance of television for young people.** Television may be becoming slowly less relevant for today's young people. Recent BBC research shows that in 2004, children aged 10–14 are consuming over 20% less television per week than children of the same age a decade earlier<sup>44</sup>. One reason is that many children now have a wider range of media devices in their bedrooms than their parents have in the living room (Figure 7).

<sup>43</sup> DTI/Generics group, *Preliminary Findings on Consumer Adoption of Digital Television*, 2004

<sup>44</sup> BARB, TNS/Infosys, 2004



- Diminishing shared experiences.** In a fragmenting media world it will be harder to attract large audiences to programmes. Throughout the 1960s, 1970s and 1980s, audiences to popular ITV and BBC programmes such as *Morecambe and Wise* and *Coronation Street* were often over 20 million. In the current decade, audiences of over ten million are rare. However, some recent events have brought in bigger audiences than expected, such as the Queen's Jubilee, the Olympics and the recent D-Day celebrations, suggesting that people are still drawn to large national events and experiences that can be shared with many others. It may well be that, though the ability of television to bring the nation together on a daily and guaranteed basis may be falling, those occasions where it is possible could become more valuable over the coming years.

## 2.4 The opportunity for digital switchover

A key milestone on the way to a fully digital Britain will be digital switchover – that is, switching the whole country to digital television and turning off the analogue signal. Switchover would open up the capabilities of digital technology to virtually every household in the country, and help to mitigate the risk of digital divides. Without it, not everybody will be able to receive digital television via ordinary aerials and many people will be deterred from making the change. The success of Freeview in accelerating digital take-up has made digital switchover a realistic prospect within the next decade.

Once digital television receivers are universally available, they can begin to become a hub for a range of on-demand and internet services as well. Manufacturers are already developing Freeview boxes capable of delivering broadband services using telephone lines. But the foundation for this next stage needs to be a universal network of digital receivers. This is what digital switchover can deliver.

Though recent reports by Ofcom<sup>45</sup> and the BBC<sup>46</sup> concur that switchover is achievable, they also agree that much hard work remains to be done to persuade consumers of the benefits of digital television. It is also a serious logistical challenge, involving a rolling programme of regional conversions that will take around 4 years. And, well in advance of switchover, the UK's public service broadcasters will need to make a major investment, totalling several hundred million pounds, to build their digital terrestrial television networks to a point at which universal availability of public service channels after switchover can be guaranteed.

In the BBC's view, digital switchover is achievable by 2012, but will require a step-change in coordination between government, Ofcom, broadcasters, manufacturers and retailers, with better alignment of the costs, benefits and risks of switchover. In the next chapter, we set out our proposals for how the BBC can play a leadership role during this important period of transition.

## 2.5 Range and quality at risk

Audience fragmentation has important implications for programme quality. By spreading the same revenues over a growing number of services, it is putting a strain on quality and range in both television and radio. Though most analysts expect broadcast revenues to continue to outpace the economy as a whole – advertising income is forecast to grow by 30% from 2004 to £4.5bn by 2010, and subscription by around 40% to around £5bn in the same period<sup>47</sup> – this will not be sufficient to compensate for the huge growth in media competition. The consequences are:

- New television channels launching in the UK will be able to invest only modestly in original UK content. While the UK's public service broadcasters invest over 55% of their income in original UK content – with the BBC at 65% – pay-television channels invest an average of only 3%<sup>48</sup> (Figure 8). To be profitable, they are heavily dependent on repeats and acquisitions.
- In radio, the pattern is similar, with most new radio stations investing negligible amounts in original UK content. Even established commercial radio stations only invest on average around 25% of revenues in original UK content. Commercial radio profit margins are forecast to increase over the next decade but any extra investment in programming is expected to be focused on DJ-led music output and rights costs, rather than live music, new composition or speech output.

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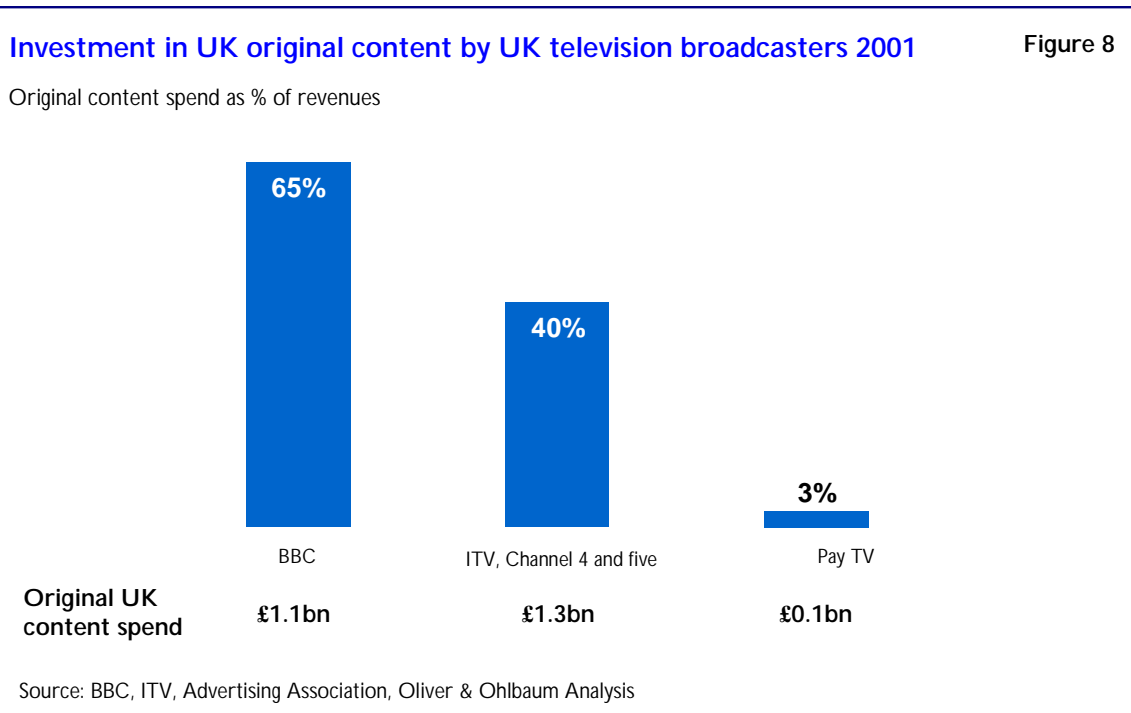
<sup>45</sup> Ofcom, *Driving Digital Switchover*, 2004

<sup>46</sup> BBC report to the Government, *Progress Towards Achieving Digital Switchover*, 2004

<sup>47</sup> Spectrum Strategy Consultants, *The End Game: RTS Cambridge Convention*, 2003

<sup>48</sup> Oliver & Ohlbaum Associates, *UK Television Content in the Digital Age*, 2003





- The UK's large commercial broadcasters are under commercial pressure from audience fragmentation. The newly-merged ITV is responding with an aggressive programme of cost-cutting involving rationalisation of production outside London: a reduced presence in Manchester and Southampton and the closure of production bases in Nottingham and Kent, with implications for regional range and diversity in UK broadcasting.
- The impact of fragmentation extends to the news market, where competition for dispersing news audiences in both print and broadcast journalism is putting pressure on standards and impartiality. In the US, news networks have discovered that partisan news is a successful commercial strategy, leading some US commentators to talk of a crisis in modern American journalism.

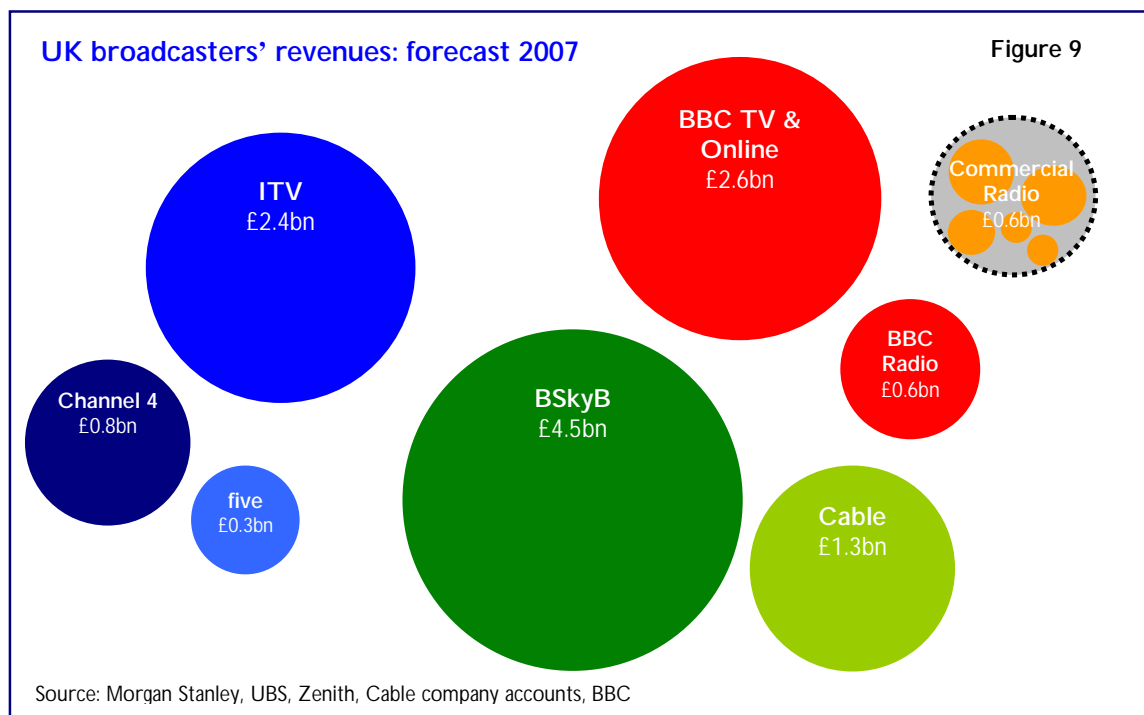
*"I'm deeply concerned about the merger mania that has swept our industry, diluting standards, dumbing down the news and making the bottom line sometimes seem like the only line."*

Walter Cronkite, journalist and former CBS news anchor, 2003

## 2.6 A concentrating media industry

Meanwhile, the UK and global media industry is consolidating faster than ever, driven by a growing need for economies of scale and scope to reach audiences cost-effectively. Contrary to some expectations, it looks as though the world's media industry will tend to heavy concentration even more strongly in the digital than in the analogue era, creating risks for the plurality of voices and range of British-made content in UK broadcasting.

- **Consolidation in radio and television.** The UK media industry has become more concentrated in all parts of the value chain in the last decade. In 1993 there were 15 independent regional ITV companies. Today only four remain, with the newly-merged ITV plc controlling 92% of ITV's revenue<sup>49</sup>. Cable has followed the same pattern, with only ntl and Telewest surviving today from more than 30 companies operating in 1993. Commercial radio has come down to a handful of main players. Today, around 55% of commercial radio listening is to networks owned by the big four radio groups<sup>50</sup>. The 2003 Communications Act paves the way for significant further consolidation.
- **Growing power of BSkyB.** The most striking example of concentrated media supply is BSkyB's position in the UK's pay-television market. Throughout the 1990s, it invested several billion pounds in creating a world-class, vertically integrated pay-television business. It is both a pay-platform operator and has its own channels. In March 2004, Sky accounted for over two-thirds of all pay-television homes. It effectively controls access for other channel operators to these homes. Recent brokers' forecasts predict that, by early 2007, BSkyB's revenue will be over £4.5bn per annum (Figure 9), creating annual free cash flow of around £800m<sup>51</sup>.



- **Global giants entering the UK.** The 2003 Communications Act paves the way for takeovers of UK broadcasters by foreign companies. Viacom, Disney and Clear Channel have already stated their interest in acquiring existing media assets in the UK. This is not limited to television and radio broadcasters – for

<sup>49</sup> ITV website, *About ITV*, 2004

<sup>50</sup> RAJAR/Ipsos-RSL, 2004

<sup>51</sup> Morgan Stanley, *BSkyB Report*, 2004

example, Microsoft plans to enter the world broadcast market, aiming to position its Windows Media Center product as the media hub for the home. It is likely that, by 2010, substantial parts of UK broadcasting will be owned by large global companies. Though foreign ownership could bring welcome new investment and skills into the UK market, we will need to be vigilant to ensure that the distinctive British nature of our broadcasting system is preserved.

## 2.7 Responsibilities and challenges for public service broadcasters

The net effect of all these changes is to create both new responsibilities and new challenges for the UK's public service broadcasters in the new media era. One of public service broadcasters' biggest responsibilities will be to sustain investment in high-quality UK-made programmes at a time of turbulence and commercial pressure. Public service broadcasters should remain guarantors of originality, innovation and creativity across a wide range of genres. In particular, they should continue to create experiences that bring the nation together – whether international events like the Olympics on the BBC and the Rugby World Cup on ITV, or ambitious multimedia series like *The Blue Planet* or *Great Britons*. These are high-cost, high-risk, yet highly valued popular programmes – no one else will create them.

At the same time, public service broadcasters can play a powerful role in building a strong digital Britain. Their obligation to be universal means they can help to make the UK's digital services, particularly digital television, available to everyone without a subscription. They can also help to make sure that everyone is offered digital content that they value, not just those who are profitable customers. Without these investments, switching off the analogue signal in the foreseeable future will be impossible. Meanwhile, as the commercial media industry consolidates, public service broadcasters, and the BBC in particular, can be a counterweight to large, potentially dominant commercial media players.

However, these are challenging times. As Ofcom notes in its recent report on the public service television market<sup>52</sup>, people in digital homes faced with multi-channel choice are watching fewer 'high ground' programmes than their counterparts in analogue homes – in news, current affairs, serious factual programming and the arts. For example, only 22% of people in multi-channel homes watch current affairs programmes in a given week, compared with 50% of those in analogue households. The BBC and the UK's commercial public service broadcasters will need to innovate in the style, content and range of their programmes to maintain relevance and appeal while staying true to public service values.

The UK's main commercial public service broadcasters have encountered difficulties over the course of the last decade. This was largely due to a severe downturn in advertising revenue from 2001 combined in some cases with progressive loss of audience share due to multi-channel competition. ITV's investment in the ill-fated ITV Digital and overpayment for sports rights compounded its difficulties. However, the recent merger of Carlton and Granada, unifying over 90% of ITV, and the continued beneficial impact of reduced licence payments due to the 'digital dividend' should

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<sup>52</sup> Ofcom, *Review of Public Service Television Broadcasting: Phase 1 – Is Television Special?*, para 75, 2004

help to create a financially stronger ITV in the future. Commercial public service broadcasters will also benefit from the forecast resumption of real growth in the advertising market over the next five years<sup>53</sup>.

The BBC has also had to adapt, though its stable funding has made the transition easier. Over the last Charter period, the BBC has taken a series of radical steps to prepare for the digital environment. In particular, it has launched a new digital portfolio of radio and television channels, developed and promoted Freeview, strengthened its marketing activity to ensure people can find their way to public service content in a crowded media marketplace, and launched [bbc.co.uk](http://bbc.co.uk), which now has over ten million users.

There were mistakes as well as successes. Some of the BBC's first digital channels were not good enough, and BBC One's programme quality suffered in the late 1990s as investment was increased in digital services. However, the decade provided an important and valuable learning ground, enabling the BBC to move more sure-footedly into the next phase of the digital revolution.

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This chapter has described our view of the future – an exciting but turbulent time in the development of UK media, in which public service broadcasting has an important role to play. The next chapter sets out the BBC's ideas and proposals for the future.

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<sup>53</sup> UBS Warburg, 2004

## Chapter 3: Building public value in the future

Because it is owned by the British people, the BBC will have special responsibilities during this period of transition. It can help to lead the nation on a journey towards a fully digital Britain. It can use the best of the new technologies to open up BBC content for every individual. And, through the creative ambition of its programmes, it can help to safeguard the distinctive British nature of our broadcasting system. But it will need to be bold to meet the changing needs of the British public.

The next few chapters set out how the BBC will change over the next decade, both in its range of services and in how it operates as an institution. Its aim will be to build public value. Turning first to its service priorities, the BBC will focus on three main areas.

First, the BBC will help to lead the transition to a fully digital Britain. The UK has the opportunity in the next decade to become a fully digital nation, in which the benefits of the new technologies are available to everyone. Because of its stable funding, the appeal of its content and the trust people have in its brand, the BBC can play a powerful role in supporting everyone as they make this digital journey, helping to ensure no one gets left behind. As the champion of universality, the BBC can help to make digital switchover achievable within the next decade.

Second, the BBC will use the best of the new digital technologies to make its content more personal, more convenient and more relevant for all audiences. Using the internet, mobile technology, broadband and interactivity, the BBC will be a pioneer and innovator, combining old and new media to offer a range of new services that can make a difference to people's lives – like access to the BBC's rich archives, new learning opportunities and fresh ways for people to participate and contribute as citizens. Our goal is to turn the BBC into an open cultural and creative resource for the nation.

And third, the BBC will raise the bar in the quality, range and ambition of its programmes. The British public has the highest expectations of the BBC. We must more than meet them. The BBC will root all its programmes and services in its core values of trust, creativity and quality. And, as UK investment comes under pressure elsewhere, we will maintain the BBC's commitment to British programme-making. To do this, the BBC will need to be more inventive than it has ever been, across the full range of its popular and specialist programmes.

*“During the next two decades the BBC must be fearlessly creative. Its role is to provide a place where the finest writers, directors and performers can do their best work for the benefit of everyone in the UK. To achieve this it must remain independent, bold and committed to excellence.”*

Sir Richard Eyre, film and theatre director, and former BBC Governor, 2004

Our vision is of a BBC that can make a bold and inspiring contribution to the UK of tomorrow – perhaps more than ever before in its history. The rest of this chapter describes the BBC’s ideas for putting these priorities into practice in each of the five areas of democratic, cultural, educational, social and global value. But first, we set out our plans for bringing the benefits of the digital revolution to everyone – helping to build a fully digital Britain.

### 3.1 Building digital Britain

Over the next decade, the BBC will invest in digital infrastructure, content, services and promotion to help bring the benefits of the new digital technologies to everyone. In addition, it will offer to play a leadership role within the media industry to ensure that a workable plan for digital switchover is developed and implemented in a co-ordinated way across retailers, manufacturers, broadcasters and government. We believe that, properly funded and managed, switchover could be achieved by 2012. We commit ourselves to the full roll-out of digital terrestrial television within a decade.

- **The BBC will work with government and industry to find ways of funding and co-ordinating DTT build-out to ensure that everyone in the UK has access to digital public service television and radio without a subscription within the next decade.** An essential foundation of a fully digital UK is that everyone must be able to get all digital public service television channels and radio networks without having to pay a subscription, no matter where they live. The experience of Freeview shows how effective the BBC’s contribution can be to universality in the new media world. However, only 73% of UK homes can currently easily get subscription-free digital television. Reception of digital radio via DAB is also currently well under 100%. As a result, 32% of people agree that they “get frustrated that the licence fee pays for services I don’t use”<sup>54</sup>. Over the next Charter period, the BBC will make it easier for every home to receive free-to-use digital radio and television. The main initiatives will include:
  - *Investing in a universal BBC digital television transmission network, making the BBC’s digital television services available to virtually every home.* Digital television is caught in a Catch 22. Because DTT shares spectrum with analogue television signals, its availability cannot be significantly extended until the analogue signal is turned off. However, the analogue signal cannot be turned off unless all homes can gain access to digital television. To break this circle, the BBC will undertake to build its DTT network to near universality before switchover. This means that, after switchover, everyone will be able to receive BBC channels on Freeview.
  - *Co-ordinating and possibly funding the build-out of DTT for other public service broadcasters.* The building out of this network risks becoming a bottleneck in the switchover process, for reasons to do with co-ordination and funding. The BBC will offer to commission and co-ordinate the building of this network, and, subject to legal issues and affordability, to pay for it on behalf of all UK public service broadcasters.

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<sup>54</sup> BBC/TNS, *Licence Fee Value survey*, 2003

- **The BBC will work with others to develop, market and promote a free digital satellite service.** This service will offer a broader range of channels and interactivity than DTT can currently support and will provide people outside DTT coverage areas with a digital option before switchover (see box below).

### Free satellite: the missing piece in the digital jigsaw

The BBC aims to support the development of a universally available, consumer-friendly, low-cost, digital satellite service that, like Freeview, offers digital television without subscription.

A free satellite offering will bring digital television access to the 27% of homes currently outside DTT coverage (approximately four million people have already contacted the BBC or Freeview to be told they are out of coverage). It also provides an alternative for those homes that need an aerial upgrade to receive DTT. Free satellite is therefore a key element to enabling digital universality of BBC services before switchover.

We aim to develop a new free satellite brand supporting a channel line-up that is at least as good as Freeview. Involvement of the other PSBs will therefore be critical. Working in partnership with other broadcasters and industry stakeholders, manufacturers and retailers will be essential.

The BBC is strongly positioned to lead the market in delivering free satellite in association with other partners. Our involvement in Freeview has provided invaluable experience of launching, running and marketing a new digital platform. We are considering a number of alternatives to achieve this including working with BSkyB who have recently also announced their ambition to develop a free-to-view satellite proposition.

- **We will increase support for the roll-out and take-up of digital radio.** We will invest in the BBC's DAB network to ensure that at least 90% of UK homes can receive BBC radio services on DAB, in partnership with commercial radio through the Digital Radio Development Bureau.
- **The BBC will support the less digitally confident to understand, use and enjoy digital technologies.** The BBC has already helped many people to overcome their lack of knowledge, and in some cases their fear, of the new digital world. Further initiatives to promote media literacy, as it is sometimes known, will include helping beginners to use the internet and training through the BBC Open Centres and BBC multimedia learning buses. The *People's War* website, about World War II, is specifically designed to attract people over 60 to try the internet. The BBC is working with Age Concern and other partners to bring the retired population to this site. We will continue to think of innovative ways to overcome people's reluctance to try new technology.
- **The BBC will launch a Creative Archive – free access to BBC content for learning, for creativity, for pleasure.** The BBC's programme archive is owned by the British people. Until now it has remained largely inaccessible as there has been no cost-effective mechanism for distribution. Digital technology removes this barrier (see box opposite).

## The Creative Archive: opening up the treasure chest

Imagine being able to view and listen – and even download and own – extracts from the world's largest television and radio archive.

53% of internet users download content for their own compilations<sup>55</sup>. For the first time, the BBC will open up its treasure chest of programmes to the public who own it and make its contents available to individuals and to families for learning, for creativity and for pleasure. Two-thirds of current and prospective broadband users say they are interested in the Creative Archive service<sup>56</sup>.

The BBC Creative Archive will establish a pool of high-quality content which can be legally drawn on by collectors, enthusiasts, artists, musicians, students, teachers and many others, who can search and use this material non-commercially. And where exciting new works and products are made using this material, we will showcase them on BBC services.

Initially we will release factual material, beginning with extracts from natural history programmes. As demand grows, we are committed to extending the Creative Archive across all areas of our output.

We are developing this unique initiative in partnership with other major public and commercial audio-visual collections in the UK, including leading museums and libraries. Our ambition is to help establish a common resource which will extend the public's access while protecting the commercial rights of intellectual property owners.

*"The announcement by the BBC of its intent to develop a Creative Archive has been the single most important event in getting people to understand the potential for digital creativity... If the vision proves a reality, Britain will become a centre for digital creativity, and will drive many markets – in broadband deployment and technology – that digital creativity will support."*  
Professor Lawrence Lessig, Professor of Law, Stanford University, 2004

- **We will continue to promote the benefits of digital services.** The BBC has invested heavily in marketing and cross-promoting its digital channels. In an increasingly cluttered broadcast environment, marketing is vital to ensure that public service output can be found and enjoyed. The impact of the BBC's promotion on digital take-up has been powerful. While the BBC's 2003 trailers about the new digital channels were on-air, nearly one in three people in analogue homes said they made them more likely to get digital television in the future<sup>57</sup>. We will maintain this commitment over the course of the next decade.
- **The BBC will make its services available when and where people want them, with a new generation of BBC on-demand services.** Audiences, particularly young people, will increasingly expect to choose *when* as well as what they watch and listen to. The BBC already provides on-demand radio programmes online on the Radio Player. We intend now to extend this service to television. The BBC Interactive Media Player (iMP) will enable people to watch BBC television programmes at their own convenience, initially selected from the previous week's

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<sup>55</sup> NOP Research, *Creative Archive Research: Establishment Survey – Key Findings*, 2003

<sup>56</sup> *ibid*

<sup>57</sup> BBC PBTS, 2003



programmes (see box below). We will also explore legitimate ways for users to share BBC programmes with each other while minimising distribution costs.

### The BBC on demand: programmes when and where you want them

The BBC is developing a range of services that will give UK viewers and listeners free, convenient and legitimate access to high-quality audio and video content via the internet.

The first of these has been the BBC Radio Player, which offers listeners the chance to hear their favourite programmes from the previous week whenever they want, selected from a menu on the internet. 1.3 million people use this service each month.

*“The best Sunday evening ever – I have listened to two Radio 2, two Radio 4 programmes and one Radio 1 while doing the usual Sunday night chores ... I hope and pray this lasts – this is how we want the future to be – quality programming on demand wherever we are – worth all of my licence fee.”* JC, via email, 2002.

We now plan to extend this service to television programmes, first of all on a service to be known as the Interactive Media Player, or iMP. Initially, iMP will allow people to download television and radio programmes, choose to record whole series such as *EastEnders*, catch up on programmes they missed and watch or listen to them on any device they want. This will be possible across a variety of internet-connected devices, enabling people to change the way they consume media in line with changes in lifestyle and preferences. To protect rights holders, downloaded programmes will be copy-protected, meaning that seven days after broadcast users will no longer be able to access a programme. The iMP is currently undergoing technical trials.

- **We will work with partners to make online and broadband more affordable and accessible.** Online and broadband access is still expensive for many people, largely because of the cost of computer hardware. We will work with educational institutions and libraries to give people access to BBC content via their computing facilities, and with manufacturers to create a standard for cheap PCs and cheap broadband set-top boxes which can receive all BBC services – television, radio and online.
- **As media choice expands, we will work with others to ensure that people can easily find the content they want.** We will develop consistent, easy-to-use navigational tools based on open standards, so that audiences can make the most of the ever-increasing choice of programmes and information available, whatever platform or device they choose to use.

An important factor affecting the BBC’s ability to work towards a fully digital UK will be the length of the next Charter period. The BBC’s ability to invest in high-risk projects and plan for the long term has always been underpinned by the fact that it has operated under a ten-year Charter. A shorter Charter period would prevent the BBC from being able to make the commitments needed, given the scale of investment and forward planning required.

Throughout the digital transition, the BBC will not forget people who choose for whatever reason to stay with analogue services. We will continue to provide a full

range of high-quality programmes on BBC One, BBC Two and the BBC's national and local analogue radio stations. All landmark programmes will be shown on BBC One or BBC Two, and there will be no reduction in hours or investment in arts or current affairs on these channels.

### 3.2 Supporting active and informed citizenship

Democratic life in the UK is changing. The growth of single-issue campaigns and special-interest groups, constitutional change, a threatening and complex global environment and low turnouts at elections are all important recent trends. At the same time, the news market worldwide is becoming more commercial and more competitive. Traditional news values are coming under strain. High-quality, impartial, in-depth and trusted news has never been more important.

As we move into the next decade, the BBC will be a guarantor of impartiality and independence, enabling people to make sense of this fast-changing agenda. It will offer a place where a plurality of voices and opinions can be given space and where rational debate can be held. And as the new technologies develop, it will provide ways for audiences to become more active citizens and contributors to the national debate.

- **The BBC will reinforce its commitment to trusted, reliable, impartial and independent journalism.** The BBC is relied on by the British public for the quality and range of its news. We will implement in full the recommendations of the Neil Report into the issues surrounding the Hutton Inquiry into Dr David Kelly's death, with the aim of recapturing the full trust of audiences and participants in BBC journalism. In partnership with others, we will support the professional education of our journalists and promote debate about editorial standards and ethics in the UK through a new College of Journalism.
- **The BBC will invest in journalism of depth and specialist expertise in all media.** The volume of news coverage has grown exponentially over the past decade, fragmenting available audiences and creating intense pressure on investment in journalism for many news providers. The BBC will maintain the range and quality of its news reporting and will continue to invest strongly in newsgathering at local, national and international levels. It will commit to keeping a broad range of specialist correspondents and foreign bureaux, prioritising expert first-hand reporting, careful verification and a comprehensive international agenda of foreign reports and analysis.
- **We will restore and sustain the prominence and appeal of serious current affairs and analysis on BBC television and radio – including on BBC One.** In an increasingly complex world, current affairs programmes aimed at explanation, analysis and seeking out the truth behind contentious issues will matter more than ever. As pressure mounts on other broadcasters to push current affairs to the margins of the schedule or make it more popular at the expense of depth, the BBC will increase its primetime current affairs output across its channels – and particularly on BBC One. We will remain committed to thought-provoking and strong investigative journalism which uncovers truth in the public interest. We will

provide more major 'event' days on topics that matter to people – building on the success of days like *Your NHS*, *Cracking Crime* and *Hey Big Spender!* about debt.

- **We will offer everyone a democratic voice and a means of contributing to the national debate.** The BBC will exploit new digital technologies to encourage a wider national debate. It will develop more interactivity around programmes such as *Panorama*, *Question Time*, *Any Answers*, *Today* and the *Ten O'Clock News* in order to engage a broader audience, giving people a voice on issues on which they may feel unheard. The BBC is well placed to bring individuals from different walks of life together for the free exchange of ideas which can help to build openness and understanding.
- **We will launch a new highly local television news service for cities and counties across the UK.** Digital technologies will enable the BBC to provide broadcast news and information to people in smaller communities than has been possible before.

### An ultra-local news service

BBC One's 6.30pm news programmes for the Nations and regions of the UK are the most watched news programmes in the country – over six million viewers tune in every day. However, some of these regions are too large to be supplied with truly relevant local news, and 6.30pm is not always the most convenient time for audiences to tune in to their local programme.

Our aim is now to use digital technology to launch a new highly local television news service for cities and counties across the UK. We intend to provide 50-60 areas across the UK with up to 10 minutes an hour of genuinely relevant local news and information, not just at 6.30pm but throughout the day. We will explore the relative costs and feasibility of launching this service on digital television, including Freeview, and on broadband.

We believe that this service will serve an unmet need for local TV news among UK audiences. In the BBC's technical trial of broadband local television in Hull, one of the most popular services was local news based around communities. And evidence from the US and Germany, which both have far more local television news services than the UK, confirms that localness is highly valued in news broadcasting.

The BBC's 'ultra-local' news service will harness the growing power of video journalism to cover local and regional stories across the UK. The BBC now has five times the number of cameras covering local stories compared with two years ago, and we intend to use them to provide a unique service that will reflect the lives and concerns of local communities.

- **We will create opportunities, especially at the local and regional levels, for people to become more active citizens.** The BBC will aim to give people more opportunities to engage with political and civic life. Research shows that one of the reasons for falling democratic participation is that people feel they cannot make a difference<sup>58</sup>. To help to address this, the BBC is piloting a new web-based

<sup>58</sup> TRBI, *Beyond the Soundbite*, 2002

service, called *iCan* (see box below). *iCan* equips people with tools to influence the world around them and encourages users to join up with others seeking a common civic goal. In addition, we will continue to develop a range of initiatives with schools and colleges, such as *Schools' Question Time*, which will provide access to the BBC's news expertise and archives and encourage participation in civic life.

### **BBC *iCan* – change the world around you**

*iCan* is a unique, interactive community resource for people who want to make a difference in civic life but who are put off by traditional politics. One in four people say they would get more involved if they thought their contributions would count<sup>59</sup>.

The *iCan* website offers its users a guide to understanding how they can make a difference to the world around them, based on their shared knowledge and expert material from the BBC and the internet.

It puts users in touch with each other, so they can maximise their influence by working together. It aims to complement existing civic resources, not duplicate them, and is working closely with others active in this field, such as the NHS and Citizens Advice. It also provides links to thousands more websites. In the first three months following the launch of the technical trial, more than 300 initiatives were started.

- **We will use new media and some of the BBC's most popular services to attract hard-to-reach groups with an intelligent news and current affairs agenda.** It is increasingly difficult for all news providers to reach some audience groups, particularly younger people. Nearly a third of those under 45 say they are not interested in current affairs<sup>60</sup>. Only the BBC has the financial stability to experiment and go on experimenting to find new ways of reaching them. We will make news content available to younger people in the ways they want to get it, and on the devices that they use – mobiles, PDAs and broadband. We will continue to try out new styles and formats of news programming while staying true to our editorial values.
- **We will increasingly use the skills of documentary makers as well as journalists to understand the world.** Documentary is a key genre for creating programmes that relate very directly to audiences and their lives. Whether films about children in care for the BBC's *Taking Care* season, or the first-hand experience of war in *Lance Corporal Baranowski's Vietnam*, or about immigration in *Welcome to Britain*, these programmes offer a compass for viewers trying to understand society, using the personal and rich language of documentary. The BBC will expand its documentary range, finding new voices and fresh talents to reflect British society back to its citizens.

<sup>59</sup> TRBI, *Beyond the Soundbite*, 2002

<sup>60</sup> BBC News, *Usage and Attitudes study*, 2001

### 3.3 Programmes that enrich our lives and culture

One of the BBC's most important priorities for the next Charter period will be to lift the creative ambition, quality and innovation of its programmes. Change and fragmentation in the media markets mean that high-quality UK programmes will become harder to make for many broadcasters. At the same time, the demands are growing from today's increasingly diverse audiences for a rich mix of surprising, enjoyable and memorable programmes.

In many areas, the quality and range of the BBC's programmes are second to none. People judge BBC One and BBC Two to have a better range and quality of programmes than ITV1, Channel 4, five and Sky One in 17 out of 22 genres<sup>61</sup>. Its best programmes continue to capture the imagination of millions. But, as noted in Chapter 1, there is more to do. Audiences tell us that they want a wider range of more imaginative programmes. They want a richer mix of programmes at the heart of their schedules, in home-grown drama and comedy in particular. This is the creative challenge of the next decade, and we intend to rise to it.

- **We will dedicate all the BBC's services to originality and excellence.**  
Initiatives will include:
  - *Eliminating derivative programmes and ideas from BBC schedules.* Audiences want and expect greater innovation from the BBC. We will avoid ideas and formats that are derivative or copied, and eliminate programmes that are tired and lacking in originality.
  - *A broader search for the UK's most talented writers and producers.* We will build on the success of initiatives such as *BBC Talent*, which has discovered many new writers, directors and performers since its launch in 2000. For example, Lee Edmenson exchanged life as a welder for the 1Xtra radio studio where he is now a producer, and Linda Thompson, a former administrator, now writes for BBC One's *Doctors* series. Our writing initiative, *writersroom*, currently works with more than 3,500 aspiring writers and receives over 10,000 unsolicited scripts every year.
  - *More freedom for creative risk-taking.* Audiences want the BBC to play less safe. To do this, we will support in-house and independent programme makers in taking more creative risks. We will amplify the importance of programme reach over share as the headline performance measure for BBC programmes, and help to lead an industry-wide initiative to develop new audience indicators that capture the memorability and appreciation of a programme.
- **The BBC will defy standard programme categories to open up challenging subjects to large audiences – from arts and history to science, religion and music.** Some of the most exciting recent programmes have sprung from ground-breaking collaborations between different programme-making departments. *Dunkirk*, for instance, brought together the differing skills of documentary and

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<sup>61</sup> BBC/TNS, *Licence Fee Value survey*, 2003

drama to great effect, and *Eroica* combined classical music and drama. The BBC will increase its investment and risk-taking in cross-genre productions.

### Defying standard programme categories

Because of its scale and stable funding, the BBC is better placed than any other broadcaster to experiment with new ways of treating serious subjects, making them both enjoyable and interesting to large audiences. In particular, breaking down barriers between genres can help to create programmes that feel fresh and different, yet still deliver the depth that people expect from the BBC. Examples include:

- *Smallpox 2002*, a vivid blend of fact and fiction, depicting the harrowing consequences of an act of bio-terrorism.
- The documentary-style drama *The Day Britain Stopped* charted the aftermath of a mid-air collision by two planes over London and it provoked intense debate about disaster planning and air traffic control. Both films were made by Wall to Wall.
- BBC Two's brief to devise a new analysis strand which examines current issues in a way that appeals to a younger audience resulted in the ground-breaking series *If* – a marriage of scenario planning and drama that attracted an average audience of two million over five episodes.
- A current affairs producer worked with BBC Northern Ireland's drama department on *Holy Cross* – a penetrating BBC One drama about sectarian strife centred on a Belfast primary school. Current Affairs has now appointed its first ever drama development executive.

Research shows that these programmes stood out as high-impact and memorable, and attracted a younger audience than more traditional current affairs programmes.

- **We will fund and support the next generation of high-quality British comedy, entertainment and drama.** Audiences particularly want the BBC to offer great British comedy and drama. One of the challenges will be to strike the right balance between programmes that reflect the growing diversity of the UK, like *Babyfather*, *Monkey Dust*, *Silver Street* and *Burn It*, with an ongoing desire for programmes that create shared experiences, like *The Archers* and *EastEnders*. We will aim to provide a rich mix – popular and minority, challenging and relaxing, innovative and reassuring. Not every one will succeed – the creative process will never be that predictable – but all our programmes will aim for an edge of ambition and originality to provide quality and distinction overall. Initiatives will include:
  - *Using the BBC's radio and digital TV channels – particularly BBC Three – as test beds for innovative comedy and drama.* Radio 4 has always been recognised as a valuable nursery slope for new comedy and drama talent, with programmes such as *I'm Alan Partridge*, *Dead Ringers*, *The League of Gentlemen*, *Little Britain* and *Goodness Gracious Me* all beginning life there. The BBC has now also begun to incubate riskier shows on its digital TV channels. Successes like *Nighty Night* and *3 Non-Blondes* started there and have since been shown on BBC One and BBC Two.

- *Strengthened commitment to comedy.* The growing diversity of UK society is making successful comedy even more challenging. Many broadcasters will have no choice but to fall back on importing good US comedies. From *Fawlty Towers* to *The Office*, comedy has been a powerful expression of British culture, and the BBC remains fully committed to creating the next generation of British programmes that make the nation laugh.
- *Entertainment programmes with modern appeal.* The BBC will broaden its range to cater for all tastes as audiences become increasingly sophisticated in their expectations of entertainment programmes. We will strive for unpredictability, freshness, edge and talent with strong flavours and inclusive appeal.
- *A greater range of single dramas to reflect the complexity and reality of life in the UK today.* Ever since ITV's *Armchair Theatre* and the BBC's *Play for Today*, single dramas have always held a special place in UK broadcasting. They can make a powerful statement about life in contemporary Britain. Unfortunately, they risk disappearing from today's broadcast media as familiar series come to dominate many parts of the schedule. The BBC's ambition is to revive the success of the single play on television, as it has done already with *Home*, *This Little Life* and *Flesh and Blood*. For listeners, Radio 4 will continue to air a wide range of single plays and Radio 3 will continue to commission original drama like *The Wire*, ambitious and challenging in scale.
- *A range of British feature films to complement drama output.* With several Academy Awards to its name, BBC Films is building a strong reputation as a creative leader within the film community. The BBC is committed to co-producing six to eight feature film projects per year. They will reflect the cultural diversity of modern-day Britain and will be produced in partnership with other leading British and international film producers, including the UK Film Council.
- **We will seek to bring our shared historical and cultural heritage alive for a modern audience.** A striking feature of the past few years has been the growing passion of UK audiences for understanding the past through popular programme initiatives such as *A History of Britain* and *Meet the Ancestors*. More recently, this has been seen in the fascination among all age groups inspired by *Dunkirk*, which reviewed the extraordinary events of that epic rescue through the eyes of those who were there. In the next decade, the BBC will increase its commitment to making sense of the past in order to illuminate the present. We will increase investment on BBC Four and guarantee a more prominent place for culture on BBC One and BBC Two. Initiatives will include:
  - *Bringing the past to life.* The BBC will develop a new range of ambitious history programmes such as those marking the 60<sup>th</sup> anniversary in June 2004 of the D-Day landings. These programmes were broadcast on radio, television and online, in a collaboration that included a mix of individual eyewitness accounts, social, political and military history, drama, documentary and opportunities for audiences to contribute.

- *Making the good popular – our literary and artistic tradition made accessible to all.* Even some of the more challenging parts of the world’s heritage can be brought to life with the right kind of imagination and creativity. Series like *Canterbury Tales* can open up classic stories to a new generation – in this case, over half the British public had never heard of them. The BBC will aim even higher in the coming years. For example, during the Athens Olympics in 2004, Radio 4 will broadcast a dramatised version of Homer’s *Odyssey*. In 2005, the BBC, in partnership with other organisations including the RSC, will create a ground-breaking, cross-media Shakespeare project, as part of which the BBC will make its large Shakespeare archive available online to individuals, schools and colleges.
- **As the country changes, the BBC will seek to build a deeper understanding of multi-faith Britain.** Christian celebration will continue to represent a significant part of the BBC’s commitment. At the same time, the BBC will reflect the growth of other faiths, including Islam, Hinduism, Sikhism, Judaism and Buddhism. The BBC’s *Islam* season in 2001 reached over seven million people<sup>62</sup>. The BBC will also reflect the fast-developing interest in broader spiritual pursuits beyond organised religion. Diversity within, as well as between, religions will have greater attention, especially on BBC radio. Through [bbc.co.uk/religion](http://bbc.co.uk/religion) and religious journalism the BBC will be a place where faith is held up to the light, celebrated, scrutinised, debated. Dramas such as *Holy Cross*, or current affairs programmes like *What the World Thinks of God* will ensure religious themes and stories are not simply explored in the margins of programming. More than any other broadcaster, the BBC will remain committed to placing significant religious programmes prominently in the schedule.
- **We will support creativity across the full range of British music-making.** Music touches almost everyone in some way and is an important means of bringing people together from different backgrounds. However, 52% of adults feel that there are not enough specialist music programmes on television<sup>63</sup>. The BBC will continue to champion the broadest range of music genres, put into context by presenters with knowledge and conviction, and to bring outstanding live music to television and radio. As part of this, the BBC’s role in supporting new creative talent and commissioning new work will be more important than ever. Radio 2 will continue to support young musicians through initiatives such as the Young Folk awards, Young Chorister of the Year and the Young Brass Soloist awards. BBC television and Radio 3 will run the Young Musician of the Year and BBC Singer of the World competitions and Radio 1 will continue to support new musicians through the variety of its music broadcasting and commitment to new bands.

*“The BBC has supported British composers who have had their music performed worldwide, and it’s given everyone the chance to listen to great music. That’s something that’s needed now more than ever – to let a new generation hear those fantastic sounds that will draw them into music for life.”*  
 Sir Simon Rattle, Music Director of the Berlin Philharmonic, 2004

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<sup>62</sup> BARB, TNS/Infosys, 2001

<sup>63</sup> Human Capital/Ipsos, *Quest*, 1999



- **We will aim to stimulate the creativity of our audiences.** New technologies now allow us to encourage the creativity of many more people (see box below). We will give people the chance to tell their stories and learn to use the media that shape their everyday lives. We will make space across all our media to showcase their work.

## New Voices

*"I didn't have a voice before. Now I've found my voice and I like it."*

Tracey Hayward was working as a football coach in East Ham in London. In 2003, she took part in one of the BBC's *Voices* projects which was helping to get a piece of disused ground turned into a sports pitch. As a result, she was encouraged to go on a television and radio course and discovered a natural talent for broadcasting. She went on to take part in radio and television programmes, as well as getting involved in documentary-making and web design. She is now a regular broadcaster on BBC London 94.9.

'Telling a story' is something that millions of people enjoy doing. The BBC has launched a range of initiatives that have shown that many people want to cast off their role as a passive audience and broadcast for themselves. From *Voices* through *Video Nation* to *Digital Storytelling* and *Telling Lives*, hundreds of people with no previous broadcasting experience have taken the opportunity to tell their stories. For some, it has given them the skills and confidence to change their lives.

In the future, through creative partnerships we will be able to create and publish the stories and experiences of many more people from all backgrounds. BBC staff will share their programme-making skills and help to build media literacy across the UK, enabling our audiences to engage more with the media around them. This new way of working will let the BBC access authentic voices and experiences and could become a powerful source of content for all our services.

- **We will deliver greater value and memorability beyond the broadcast.** The impact that the BBC can have on people's lives is being transformed by online, interactive television and broadband. In the future, the BBC will be able to use its local and national multimedia resources to create networks of programmes and initiatives – often with external partners – around big themes. A recent example is *The Big Read*, which gives a taste of what will be possible (see box opposite). *Comic Relief*, *Children in Need* and *Sport Relief*, which have raised well in excess of £600m for good causes in the last 25 years, are sustained examples of where the BBC can have a profound and lasting impact on people's lives. Next year, the BBC will celebrate the 20<sup>th</sup> anniversary of *Live Aid* and the tenth anniversary of *Comic Relief* with a major event aimed at involving people of all ages in issues of poverty and development.

## Impact beyond the broadcast: *The Big Read*

*The Big Read* was a BBC-led project, spanning television, radio, online and interactive services, which aimed to reawaken the nation's love of books and reading. Over the course of a year, through compelling programmes and an extensive outreach project, it aimed to get the British public reading, talking about, voting on, and re-reading books as they had never done before – whether in classrooms, cafes, libraries, workplaces, pubs or at home. The quest – to find Britain's best-loved book.

The *Big Read* did more to inspire national interest in reading than could have been imagined ten years ago because of the networks it was able to create across the nation. As Paul Hoggart of *The Times* wrote, "*The Big Read satisfies the contradictory demands of popular accessibility, celebrating heritage and widening cultural horizons*". It turned the UK into a vast reading group involving every library in the country, it boosted library borrowings and book sales and it spawned hundreds of events linked to reading and writing. An important element of engaging a mass audience was the weight of public service marketing with which the BBC supported the event, creating a scale of communication that attracted a large and diverse audience.

The impact of *The Big Read* in raising interest in books was multiplied through a series of public sector and commercial partnerships. These included working with:

- The National Literacy Trust: the BBC created teaching resources for each key stage of the national curriculum. During the nine months of the project, there were over 45,000 downloads of these teaching resources.
- The Reading Agency: the BBC took *The Big Read* into all 4,200 libraries in the UK. Library loans of the top 100 titles soared. Titles such as *Jane Eyre* and *Great Expectations* were borrowed ten times more in November 2003 than in November 2002.
- Booktrust: the BBC created an advice pack on how to set up a book group. Over 110,000 of these packs were downloaded and 2,150 new *Big Read* book groups registered.
- Publishers and retailers: the BBC brokered a deal with HarperCollins, publisher of the winning book, to send a free copy of *The Lord of the Rings* to every UK secondary school.

## 3.4 Bringing the learning revolution to all

Learning is undergoing a revolution. People have an increasing desire for achievement and self-fulfilment. At the same time, interactive technologies are transforming people's ability to learn at their own pace and in their own time. Working with its partners, the BBC will aim to be a learning resource for all, helping to create a skilled nation rooted in understanding and knowledge. From children learning through play uninterrupted by advertising, to GCSE students accessing BBC *Bitesize* to support their studies, the BBC will make learning more enjoyable and relevant. People of all ages and backgrounds will have access to new skills and interests.

- **The BBC will launch a Digital Curriculum, bringing new learning opportunities to every British schoolchild.** In 2006, the BBC and its partners will launch the BBC Digital Curriculum, a free online service covering the key elements of the school curriculum. It will be available free to every school in the UK (see box overleaf).

## The Digital Curriculum: a learning revolution for every British child

The BBC Digital Curriculum will be an imaginative multimedia resource structured around the school curriculum, designed to stimulate learning both at school and at home. It will be available to any school or household with an internet connection, although the benefits of the rich media on offer will be felt most fully by the increasing number of users with broadband access.

Pilots for the Digital Curriculum show that schoolchildren's learning can be improved, particularly in historically low-achieving schools. Based on extensive development work with teachers who want flexible resources and imaginative methods of delivery, the service will be involving, visually stimulating and easily accessible, as requested by young learners. The BBC will seek to make it widely available on digital television and games consoles as well as online.

A report into the effectiveness of the BBC Digital Curriculum trial by the University of Durham CEM Centre in September 2002 concluded:

*“Evidence from the teacher ratings suggests that the motivation and behaviour of the majority of Literacy and Numeracy pupils was better during the trial than usual motivation and behaviour. The biggest benefit was for those pupils whose usual motivation and behaviour was classed as below average.”*

- **We will use innovative techniques to transform understanding of difficult subjects.** The BBC will increase its commitment to trusted factual programming as other UK broadcasters come under pressure to narrow the range of subjects they cover, or to shy away from difficult ones. Future series such as *Auschwitz* and *Planet Earth* are examples of the BBC's willingness to tackle complex subjects in an innovative way. We will continue to prioritise marketing support for these kinds of programmes to ensure that audiences can find and enjoy them. Using new digital technologies, we will encourage people to delve further into areas of interest. Viewers will have armchair access to rare materials such as original battle-site maps and Darwin's journals. Close partnerships with museums, libraries and other public organisations will be essential.
- **We will launch a new generation of landmark educational campaigns that can change lives.** The BBC will aim to bring the benefits of the learning revolution to those who may have missed out on some of life's basic skills. Over the next decade, we plan to launch one major social action campaign each year, working with a wide range of public sector and commercial partners to transform areas of need such as literacy and numeracy. An estimated seven million people in the UK have difficulty reading or writing<sup>64</sup>. The BBC last ran a major literacy campaign in 1996, *Read and Write*, which prompted 250,000 people to follow up with further learning. Our next literacy initiative, planned for the second half of this decade, will aim to attract ten times that number, capitalising on the benefits that the internet and digital television can bring.

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<sup>64</sup> Department for Education and Skills press release, *Clarke Welcomes Business Partnership in the Drive to Boost Skills*, 2002

- **With partners, we will offer a new service to help make the internet safer for children.** Nearly seven in ten parents say they currently monitor their child's use of the internet, and over half say it is the medium they are most concerned about. We are developing plans to launch *BBC KidsSafe*, a range of practical initiatives to help make the internet a safer place for children. We will roll out a major educational campaign allied to our existing *ChatGuide* project, and, with government and industry, launch *KidsID*, a collaborative project exploring ways to safeguard young people from adults posing as children on the internet.
- **We will seek to encourage grass roots participation in sport and music.** Over the next decade, the BBC will use new technology and partnerships to support grass roots participation in these areas. The BBC already hosts *Sport Academy*, a website launched in 2002 in partnership with the major sports governing bodies, which promotes participation and understanding among young people in sports of all kinds. The site attracted more than one million users during October 2003 alone and will be extended to offer support for parents who want their children to participate in sport. As a major priority for the next five years, the BBC will pool all its musical resources in partnership with musicians, venues, festivals and education providers, to offer new ways for everyone in the UK to learn about music (see box below).

### **Music for All – bringing music learning to the nation**

The BBC intends to launch *Music for All* – a new initiative to bring music learning opportunities to everyone. It will link the BBC's huge resources – its music radio channels, talent, its five orchestras, its partnerships with musical institutions from the Royal Opera to local choirs – with children and schools across the country who want to learn more about music.

By 2008 each of the BBC's performing groups will be based in music centres equipped for live performance and wired for both broadcast and broadband. Using this unique resource we aim to help transform music education in the UK. By connecting to every school and home with broadband access, we will deliver to children the chance to hear live performances, to experience masterclasses in all music genres (DJs and classical musicians), to create and perform their own work, and to work with leading musicians who can help them to develop their musical passions. *Music for All* will be supported by a comprehensive online service providing advice and information ranging from how to find and maintain instruments through to local musical performances.

By working in partnership with the rest of the music industry and the educational sector, we will aim to enhance every child's enjoyment and understanding of music.

Digital technologies allow the BBC's learning mission finally to come of age. One-way didactic teaching can be complemented by animated, personalised learning tools that transform the experiences of people who use them. The BBC is committed to making these opportunities available to all.

### 3.5 Forging connections in an era of diversity

The UK is an increasingly diverse and fragmented society, economically, socially, demographically and culturally. As the country changes, the BBC will respond. The BBC will deepen its commitment to the nations, regions and local communities of the UK at a time when the scale and diversity of regional commercial broadcasting is under threat. At the same time, it will give priority to events and shared moments that can bring the UK together around those things that bind us – when others will find it increasingly difficult to do so. And it will increasingly act as a network, enabling people to connect with others in ways that transcend boundaries and borders.

- **The BBC will strengthen its services for the devolved nations of the UK.** The distinct characters, politics and cultures of Scotland, Wales and Northern Ireland have been given a clearer voice and sense of identity over the past decade, largely because of devolution. To play its part, the BBC will develop its support for the nations with a wide-ranging programme of investment and involvement. It will strengthen its distinctive capability across radio, television and online that enables it to cover all Scotland, Wales and Northern Ireland as a national broadcaster. Priorities will include:
  - *Ongoing coverage of the devolved political institutions of the nations* – the Scottish Parliament, Welsh Assembly and the relevant devolved institutions for Northern Ireland.
  - *New local services within the nations.* For the first time, the BBC will create local services within the nations. We will use new digital TV technology and broadband distribution to provide local communities with more relevant news and locally-produced content. These distinctive local services will better represent the range of interests and needs of audiences across each nation, and answer a growing demand for local news and information in Wales, Scotland and Northern Ireland.
  - *Reinforced commitment to the UK's indigenous languages.* We will support the UK's unique linguistic heritage among future generations of Welsh, Gaelic and Irish speakers by providing learning resources across all media platforms. This could in time be extended to support the UK's many other languages.

*“The most important aspect of the BBC's Gaelic broadcasting in recent years has been its close interaction with the Gaelic communities themselves, in rural and urban settings, thereby increasing their self-confidence and giving opportunities to discuss matters of relevance to their own lives.”*

Donald E Meek, Professor of Scottish and Gaelic Studies, University of Edinburgh, 2004

- **We will make the BBC even more local.** Life in the UK is lived in communities. The majority of people spend most of their lives – at work, shopping and at leisure – within 14 miles of their home<sup>65</sup>. Reflecting and supporting the identity of local

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<sup>65</sup> The Future Foundation, *Back in Place: The Regional Renaissance Revisited*, 2003

and regional communities has long been a core priority for the BBC. We are planning a number of initiatives to deepen this commitment:

- *A new BBC region.* In the next few years, we plan to launch a full new regional news service in Milton Keynes enabling more relevant local services to be delivered to the western part of the large BBC East region.
- *Extended local radio coverage.* New technology and lightweight equipment will also allow us to extend services and develop new ways to connect with local audiences. In radio, this will mean increasing local coverage to traditionally underserved parts of the UK, like Bradford, Somerset, Cheshire and Dorset.
- *All local radio services on digital.* We will seek to offer all our existing and new local radio services on digital platforms to ensure they reach the widest possible audience.
- *Truly local online sites.* We will develop our online services so that they are filtered by the user's postcode, offering our existing content in a more flexible, targeted way so that the sites become truly about *Where I Live*.
- *Local television news services across the UK* (see box on page 66).
- **BBC Open Centres and multimedia learning buses will be extended to hard-to-reach parts of the UK.** To remain connected with local audiences and to ensure that we extend our services to hard-to-reach audience groups, we will develop our network of Open Centres and multimedia learning buses where local partnerships allow and where there is real audience need (see box below).

### **BBC Open Centres and multimedia learning buses**

Through its Open Centres and multimedia learning buses, the BBC can help to bring the benefits of digital technologies into the heart of local communities.

BBC learning buses combine mobile broadcasting studios with a suite of computers and take those facilities out to towns and villages, factory floors and community centres. People can come on board, chat to the bus team and discover what computers can do for them. The bus allows them to have a go on the internet. They can try out other PC and computer skills and turn their hand to broadcasting. There is a wide variety of online courses to try – on everything from first aid to gardening, or helping to trace family trees. Qualified tutors help people to explore the world of computing, to surf the net or to take the first steps towards an IT qualification. Our Open Centres also provide these opportunities in city centres, opening up our local radio station buildings and studios to our audiences in Hull, Sheffield, Blackburn, Liverpool, Stoke and Gloucester.

Partnerships with local councils and local education providers are central to the success of the BBC Centres and buses. The BBC's involvement gives our partners the opportunity to find new learners who may then sign up for a range of further courses. The BBC currently has 9 Open Centres and 12 multimedia learning buses, and plans to extend them into areas where partnerships allow and audience need is greatest.

- **We will bring public space broadcasting into the heart of local communities.** We will extend the BBC's role in public space broadcasting. In partnership with Manchester City Council, we operate a giant screen in Exchange Square which shows a range of BBC programming, community films and local information. A second permanent giant screen went live in Birmingham in June 2004. Strong interest has been shown by over 20 other major cities across the UK in rolling out this initiative – we aim to launch at least ten screens over the next three years, each based on local partnerships.
- **We will seek faithfully to reflect modern Britain's diversity in mainstream as well as specialist programmes and services.** The increasing diversity of the UK means that the BBC must work hard to portray all parts of society and people from all walks of life. A few years ago we recognised that representation of black and Asian people in our mainstream output was often weak. Since then, the casting and portrayal of ethnic minorities in many of the BBC's most popular programmes has been transformed, from *EastEnders*, *Kerching!* and *Wright and Bright*, to *Woman's Hour* and *Casualty*. This may be one of the reasons why approval for the BBC among ethnic minorities has recently risen to a point where it is now higher than for the UK as a whole. The next priority will be to improve portrayal of people with disabilities, which has remained relatively static in peak time on BBC One and BBC Two over the last five years<sup>66</sup>.
- **We will provide safe online services that connect people in new ways, creating new communities of interest.** As two-way digital technologies become more prevalent, the BBC is uniquely positioned to use its content, its national and local networks and its trusted brand to become a catalyst for a diverse range of communities of interest (see box below).

### Turning audiences into communities

Many of the BBC's audiences are themselves communities, with shared interests and passions. The growth of two-way digital technologies like the internet and digital television means they can now communicate with each other in a safe BBC environment and use the BBC's resources to try new things and learn new skills. Some of our ideas for the future include:

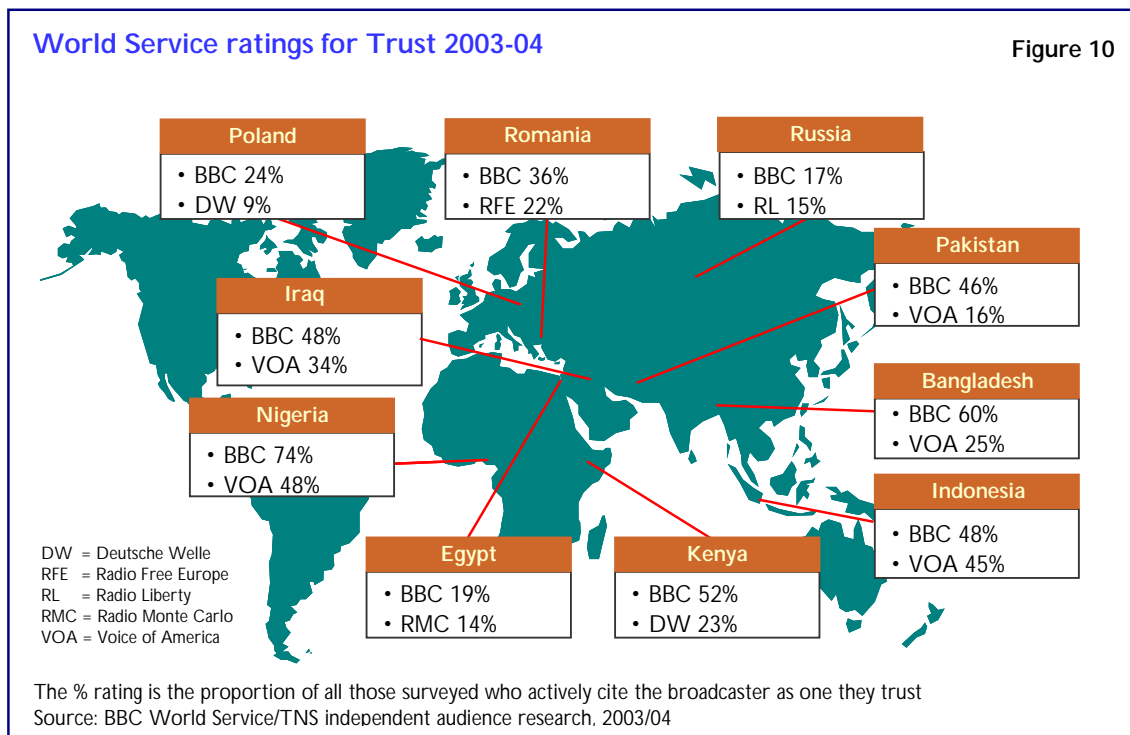
- **The CBBC Club House:** a pilot website where children from schools across Britain can make friends and talk about topics that interest them. Children can join and start clubs of their own and create a page about themselves, in a safe online environment. The site will give children editorial responsibility and train them to become responsible internet users with a good understanding of the safety issues involved.
- **BBC Connector:** with more people living alone or watching television in separate rooms, media consumption is becoming less of a shared experience. This tendency will be fuelled by the growth of on-demand services. Through *BBC Connector*, we are exploring ways to use interactive media to enable groups of like-minded people to communicate as they watch, listen to or read on-demand media.
- **Get Writing:** a new BBC service which helps people get back into – or start out in – creative writing. It offers advice from professional authors and education experts, though much of the best advice comes from the aspiring writers themselves. They use the service in discussion forums or in response to thoughts or material posted on the *Get Writing* site.

<sup>66</sup> The Communications Research Group, *Minority Group Representation on British Terrestrial Television, 1993-2003*, 2004

- **The BBC will offer an exciting range of sporting and other national events that help to bring people together across the UK.** The BBC has a greater capacity than any other organisation to bring large numbers of people together, acting as a source of social capital in an increasingly fragmented age. Forthcoming landmark events such as the Beijing Olympics in 2008 (and London, if successful, in 2012), the bicentenary of Darwin's birth in 2009, the Queen's Diamond Jubilee in 2013, the centenary of the break-out of World War I in 2014 and the 400<sup>th</sup> anniversary of Shakespeare's death in the middle of the next decade all mark significant occasions where the BBC will seek to create wonderful events that people can share.

### 3.6 Supporting the UK's voice in an unstable world

The world is more unstable than at any time in the last fifty years. September 11, conflicts in Afghanistan and Iraq, terror campaigns from Bali to Madrid, and continued instability in the Middle East have contributed to a climate of anxiety and the risk of deepening intolerance. In this environment, objective and reliable news is essential. At the same time, people across the world are more interdependent and connected than ever – through global trade, increased migration, and shared concerns over health, crime and the environment. Communication and dialogue will be needed to find common solutions. Meanwhile, the UK remains a powerful global influence, culturally and politically. The BBC's contribution can be to support the UK in its global role over the coming years.





**We will aim to build the BBC's reputation as the trusted global voice of British broadcasting.** The BBC World Service is the most trusted news provider in virtually every world market measured (Figure 10). As a consequence, the BBC can play a valuable role as a voice of fairness and impartiality around the world. The challenge over the next decade will be to increase the reach and standing of the BBC's global news services – BBC World as the best international television news channel, BBC World Service as the most respected international radio broadcaster, and both supported by the best multilingual online international news offer anywhere in the world. As media choice expands, the BBC will increasingly focus on key opinion formers in developed markets, while continuing to serve wider audiences in areas deprived of free or reliable information. We will prioritise geopolitically critical areas and the expansion of relevant distribution platforms such as FM radio and digital, ensure that our global newsgathering capabilities and reporting presence on the ground are second to none, and develop the BBC's presence on the ground in key regions, including the Islamic world.

*“Within a couple of hours I heard the world news; I listened to Bob Marley followed by Bach; a programme about global warming which educated me; I was captivated by a debate on the Big Bang Theory; and then there was poetry. I was convinced that these items had been programmed especially for me.”*

Benjamin Zephaniah, poet, on listening to the World Service in Ethiopia, 1999

### **BBC World: a voice of impartiality in a world of mistrust**

BBC World, the BBC's global 24-hour television news channel, has a unique opportunity to meet the growing international need for impartial global news coverage. It is one of the very few worldwide television news channels that aims to present an impartial view of international events. Following the September 11 attack, demand in the United States from Americans wanting to receive BBC World has risen substantially. In the words of one respected US journalist:

*“A funny thing happened during the Iraqi war; more Americans turned to the BBC for their TV news. They're looking for an alternative point of view – something they couldn't find on domestic networks.”* Paul Krugman, *The China Syndrome*, New York Times, 2003.

An important goal for the next decade will be to improve the distribution and financial model for BBC World, especially in the United States. By offering a broader, alternative perspective to other news providers, BBC World has a compelling proposition both for distributors and advertisers around the world.

- **As internet take-up grows, the BBC will provide a trusted global forum for dialogue and debate around the major international issues of our times.** There is an opportunity – and a pressing need – for the BBC to use its combined reach of over 180 million people across radio, television and online to explore ways to strengthen connections between people around the world. The BBC is well placed to bring individuals from different societies together for the free exchange of ideas and to develop an intelligent dialogue which transcends international borders and cultural divides. In doing so, it can help to build

openness, tolerance and mutual understanding. A model for the future was the World Service's 2003 Aids season, the most ambitious and comprehensive season of programmes on the subject of Aids by any broadcaster anywhere in the world. Hundreds of reports were broadcast, from the Arctic Circle to Haiti and from Yemen to Brazil. Interviews with leading figures included Colin Powell, and Luc Montagnier and Robert Gallo, the co-discoverers of the Aids virus. Thousands posted their own personal testimonies and insights on the special Aids website.

*"The BBC's special season was the biggest, boldest and most impactful broadcasting response to the global challenge of Aids."*

Richard Feachem, Head of the Global Fund fighting Aids, 2003

- **Through BBC Worldwide, we will further develop the BBC's role as the global showcase for British culture and talent.** BBC Worldwide's television export success has demonstrated its effectiveness in promoting British creativity around the world. Through its infrastructure of sales offices and television channels on every continent, the company has a global presence that outstrips any other non-US broadcast company. Its cross-format strategy translates television ideas into a range of high-quality magazines, books, videos, audio products, music and merchandise. Over the next decade, BBC Worldwide will continue to roll out this cross-format strategy into more territories, building an appreciation around the world of British writing, performance, humour, music, innovation and craft skills. Growth will be supported by new international partnerships, such as the recently announced magazine publishing joint venture with *The Times of India*, and the joint company with Penguin in global children's books. At the same time, existing commercial partnerships with companies such as Discovery Communications in the US, Alliance Atlantis in Canada and Foxtel in Australia, will be expanded.

*"In my experience, BBC Worldwide is one of the great ambassadors for our country, achieving the rare combination of being both appreciated and trusted."*

Michael Palin, writer, actor and presenter, 2004

- **We will increasingly use the BBC's global presence to bring a richer international dimension to domestic programmes, particularly on BBC Four.** The BBC will seek to satisfy people's need to understand current events in their global context and to experience different cultures. BBC Four in particular will develop its explicit international agenda with factual strands such as *Storyville*, offering the best of international documentary. This year, in partnership with distributors and cinemas, BBC Four is collaborating on *Discoveries*, a programme of work by first-time directors from around the world.
- **In an increasingly multicultural environment the BBC will help to connect British people to their international roots.** The BBC's local, national and global network gives it a unique capability to link people across borders. During Bristol's St Paul's Carnival in 2003, the BBC provided an online link between people in Bristol and their friends and families in the Caribbean. Current projects include initiatives to link the Cornish diaspora around the UK and abroad, and connecting the UK's growing Polish community to its roots.

The BBC's position as the world's most trusted international news broadcaster gives it a great responsibility at the current time. In the future it will not be enough for governments to talk to governments. People will have to talk to people. The BBC can help to make that possible.

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This chapter has set out the BBC's plans for its programmes and services of the future – how it will build public value for the British people.

In the next chapter, we set out a new system for assessing the BBC's success in creating public value. It will involve a test that any new service proposal, including the ideas and aspirations described in this chapter, will have to pass before being approved and launched.

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# Chapter 4: Demonstrating public value

The public, the government, the broadcast industry as a whole and the BBC's many other stakeholders have a right to expect that public value should mean just that, and that the benefits of any existing or proposed new service should outweigh any disbenefits there may be. The BBC therefore proposes to commit itself to a new system for assessing new services and monitoring the performance of existing services, based on objectivity, rigour and transparency.

The new system will give licence payers greater assurance that the BBC's services will deliver against their wider public purposes. Because it will delineate the scope and objectives of BBC services more explicitly than in the past, and because any change to scope or objectives will only be approved once the full market context is examined and understood, the system will also make the BBC's current and future services more predictable from the perspective of other players in the media market.

We have four main proposals:

- The BBC's Board of Governors will subject every new service – or major proposed development or expansion of an existing one – to a public value test before approving its launch, including an independent evaluation of its likely market impact and audience research.
- Every BBC channel and service will be granted a Service Licence by the Board of Governors, setting out its budget, remit, conditions and objectives. Significant variations to the licence would require agreement from the Board.
- Every three to five years, the Governors will commission a public value survey of 10,000 licence payers.
- A new performance measurement framework will be adopted, based around four overall criteria: reach; quality; impact; and value for money. Audience share and volume will continue to be considered as indicators of programme or service impact, but only as two among several.

The rest of this chapter sets out these proposals in more detail.

## 4.1 A new test of public value

The BBC's role is to build public value for our society. In conceptual terms, this means that, while commercial organisations are aiming to maximise shareholder value, the BBC is aiming to maximise public value.

Commercial organisations have a range of financial techniques to help them. They have bottom-line profit, return on capital employed, discounted cash flow, and a

range of other quantifiable measures. They use these to decide what new services to launch, where to cut spending and where to invest.

Public organisations have very few such techniques. Public value is a much harder concept to measure. As we highlighted in Chapter 1, it is difficult to quantify the value to our society of having a public place for national debate, or of everyone having access to some of the best of UK culture and creativity, or of coming together as a nation around important national events. The same challenge is faced in working out how much to spend on healthcare, public parks and museums. The tools of quantification used by the commercial world are not enough. We rely instead on the democratic process – elected politicians taking decisions on behalf of the British people – to allocate shared public funds to public services.

To assess public value, we are developing a public value test that will be applied to all new service proposals and significant changes to existing services. It is based on the definition of public value that we gave in Chapter 1 – that is, a combination of individual value, citizen value and net economic value. The public value test has two steps.

The first step examines the needs, costs and benefits of the new services. It must demonstrate audience need in line with the BBC's purposes (with an estimate of likely reach). It must also articulate the benefits clearly in terms of quality and distinctiveness, impact and value for money. This step will include analysis of the likely outcomes of the service and consultation with stakeholder groups who are also focused on these outcomes. If the new service proposal doesn't come up to scratch, it must go back to the drawing-board, or be dropped.

The second step attempts to estimate more quantitatively the public value of the service proposal, and has three parts:

- |  |
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| <p><b>1 INDIVIDUAL VALUE:</b> the benefit that people derive as individuals from a BBC service, compared with the costs of providing it. Measures will include:</p> <ul style="list-style-type: none"><li>• Willingness to pay analysis</li><li>• Consumer demand assessment</li><li>• Conjoint analysis</li></ul> |
|--|

- |   |
|---|
| <p><b>2 CITIZEN VALUE:</b> the benefit that people derive from a BBC service as citizens, such as its contribution to a better-informed democracy, higher educational standards or a more inclusive society. These are complex, judgemental issues and assigning a monetary value is likely to be difficult and sometimes impossible. Indicative measures will include:</p> <ul style="list-style-type: none"><li>• Investment needed by another public body to achieve the same outcome</li><li>• Value to society as estimated by audiences through willingness to pay analysis</li><li>• Expert panels</li><li>• Evidence-based impact tracking (for instance, measurement of the number of people pursuing further education as a result of BBC programmes)</li><li>• International comparisons</li></ul> |
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- 3 NET ECONOMIC VALUE:** the net benefit that the wider media economy may derive from the BBC's services. It will have a positive dimension, such as the impact of the BBC on the profitability of the creative economy, training and market development. In some cases, the BBC may reduce commercial profitability if it is providing a service that takes away audiences from a commercial service. A net calculation will be made. Measures will include:
- Market impact analysis
  - Industry modelling

Conceptually, the public value of a BBC service is the sum of these three components. This framework can be applied to services and major infrastructure investments, though it would be neither meaningful nor practical to apply it to individual programmes. In practice, this is very much the approach the BBC and the DCMS have taken in assessing the BBC's new digital services, both before and since their launch.

Our aim is for the public value test to become a hard-edged tool for allocating resources, helping the Board of Governors and management to decide where the BBC should and, as importantly, should not, invest resources. That said, it cannot become a substitute for judgement. Citizen value – and to an extent, individual value – will always be a judgement. The BBC can and will put together a body of evidence to help to make that judgement, but it will never be possible to develop a set of equations to deliver the answer.

To give an outline example of how the public value test might be applied, take the case of CBeebies, the BBC's pre-school channel launched in 2001.

- The individual value of CBeebies is high. Its share, reach and approval scores show that it meets a need among parents for high-quality UK-made children's programming, without advertisements, as an alternative to the predominantly US content on most commercial children's channels. Consumer research shows that audiences would be prepared to pay an average of £8 a year for CBeebies<sup>67</sup>, compared with a licence fee cost of 60p a year (based on a sample of 2,000 people that included regular users and non-users of the service).
- The value to people as citizens is also high – today's children are watching programmes about their culture, language and values, in a non-commercial environment. Its content is over 90% UK-made, compared with 10% for Disney Playhouse and 42% for Nick Jr<sup>68</sup>. Research shows that people place an average additional value of around £2 extra per household per year for the wider value of CBeebies to society<sup>69</sup>.
- The economic impact of CBeebies has both a positive and a negative element. On the positive side, independent analysis shows that CBeebies is one of the new channels that has most effectively driven digital take-up,

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<sup>67</sup> Human Capital/Martin Hamblin GfK, A study measuring the value of the BBC, 2004

<sup>68</sup> Oliver & Ohlbaum Associates

<sup>69</sup> Human Capital/Martin Hamblin GfK, A study measuring the value of the BBC, 2004

opening up new markets for commercial exploitation and thereby benefiting manufacturers and retailers as well as offering new opportunities for independent producers. On the negative side, CBeebies has reduced audiences for some commercial children's channels, but with a relatively modest impact on profitability because it does not compete for advertising revenues. Independent analysis commissioned by the BBC<sup>70</sup> indicates that CBeebies has reduced rivals' advertising cash flow by only around 3%. The same study estimates that the combined impact of these positive and negative factors has been broadly neutral for the commercial media market as a whole.

The test can also be applied along the dimension of the BBC's five public purposes of creating democratic, cultural and creative, educational, social and global value. In the case of CBeebies, most of its value is cultural, educational and social.

From this assessment, it is clear that the overall public value of CBeebies is high. Our aim is to turn this public value test into a rigorous evaluation technique, quantified where possible and exploring valid ways of assessing citizen value where quantification is not possible.

The first practical application of the public value test leading to changes in services will be in online. We have applied some of the key principles of the test to [bbc.co.uk](http://bbc.co.uk), including an assessment of market impact and wider economic value. We will be publishing the results as part of the BBC's future internet strategy in the summer, including the implications for sites that will be changed, closed and in some cases expanded, to deliver greater public value.

In future, the public value test will be the main tool for the Board of Governors' scrutiny of new services, and will be underpinned by significant independent assessment by outside experts. All new proposals outlined in Chapter 3 would have to pass the public value test before being approved by the Board. In Part II, the BBC's Board of Governors sets out how these proposals will form part of a strengthened governance framework.

We will be continuing to refine the public value test over time, and would welcome working with Ofcom and the other public service broadcasters to develop it further as a practical and useful tool for assessing the contribution of public service broadcasting.

## **4.2 An evidence-based approach to measuring performance**

While the public value test will be used to help make decisions about new services, we also intend to introduce new and easily understood performance measures for existing services. Managers, the Governors and the British public will be able to understand better how well the BBC's services are doing. To do this, we have developed a simple framework, based on the evidence and measures that we believe drive public value.

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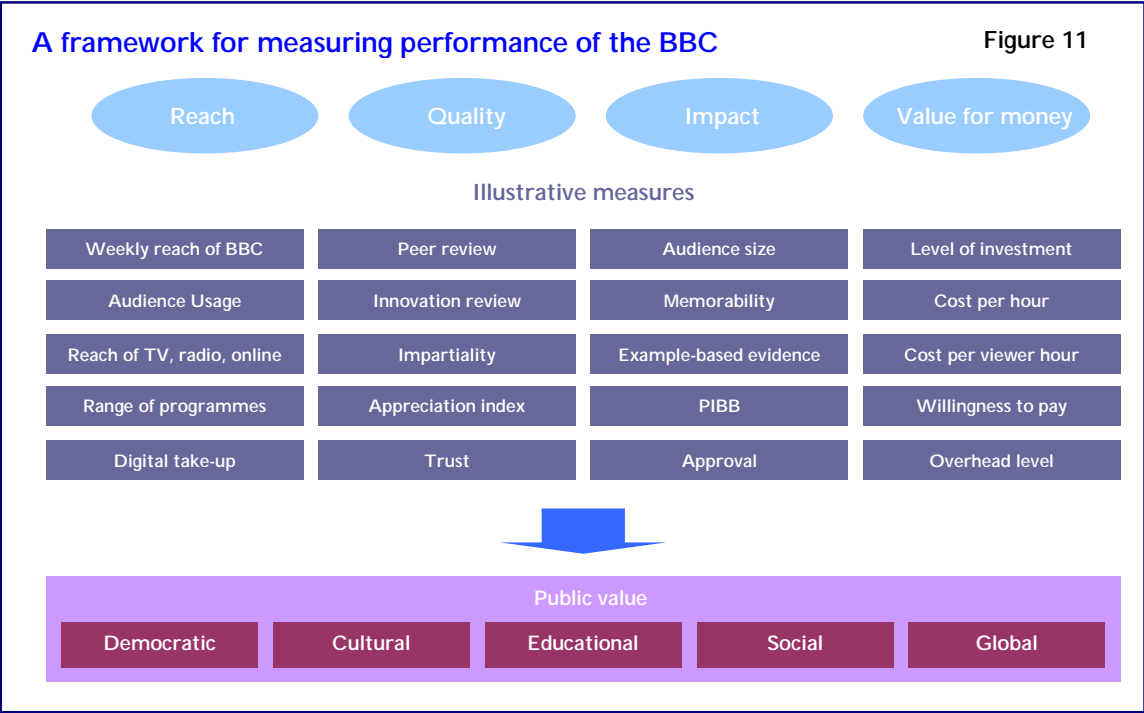
<sup>70</sup> Oliver & Ohlbaum Associates, *An Assessment of the Market Impact of the BBC's Digital TV Services – A Report for the BBC's submission to the DCMS Review*, 2004

Many of the measures are not new. Over the past few years, the BBC has developed one of the most sophisticated range of measures of any broadcaster in the world; members of the European Broadcasting Union regularly visit the BBC to study what it has done. On a regular basis we collect data on audience approval, appreciation indices for programmes, measures of programme memorability and impartiality surveys, together with standard ratings data.

We propose three changes for the future:

First, clarity and simplicity around the delivery of public value. Our future set of measures will focus on four factors: reach, quality, impact and value for money. Together, we believe they are the main drivers of public value. Where we can, we will collect direct evidence of public value – such as where a programme has changed lives or behaviour. Some of the main indicators we will use are shown in Figure 11. Some are quantitative; many are qualitative. There is no substitute for judgement in assessing public service broadcasting.

As part of our assessment of impact, we will adopt a measure similar to one currently used by PBS, the US public service broadcaster, called Points of Impact Beyond Broadcast (PIBB). PIBB was developed by PBS in the late 1990s as a means of tracking wider public impact through indicators like school usage and awards won. We already collect a great deal of data about the BBC’s wider public impact, and now want to make our approach to gathering and analysing it more systematic.



Second, the Board of Governors will use these measures to set objectives for the BBC and its services for each year, and will require management to report back against them. They will form the basis for the BBC’s Annual Report to Parliament and



the British public. Objectives for the year will draw heavily on these four aims of reach, quality, impact and value for money.

Reach will be our headline indicator of usage of the BBC's services. Reach is the best simple measure we have of the universality and equity of the BBC's services. More than any other, it tells us if the BBC is succeeding in its public role. We will track it closely at the pan-UK level and for different audience groups, as well as for different genres of programmes.

Pure ratings – audience size – also matters. Everyone pays the licence fee and audiences want the BBC to make popular programmes – there would be no point to a BBC that no one watched or listened to. However, ratings performance must always be judged on the basis of *how* it is achieved. The BBC must strive to attract significant audiences with programmes of high quality, ambition and distinctiveness. Ratings will be one of a basket of measures we use to assess impact.

And finally, every three to five years, the Board of Governors will commission a major independent survey of the public value of the BBC, involving 10,000 respondents. The survey will be designed with the aim of providing a valuable indicator of important trends and needs. The Board will publish the results, along with any action they choose to take as a result.

### **4.3 A Service Licence for each channel and service**

Each BBC channel and service will be given a Service Licence by the Board of Governors that sets out the budget, remit and performance targets the Governors expect to be met. The Service Licences, which will be published, will be based on a mix of measurable and judgemental factors that Governors believe drive the public value of that service, using the performance measurement framework described above. If a service wishes to deviate from its Service Licence, it will need approval from the Board of Governors.

As part of their annual assessment of BBC strategy, the Governors will consider carefully the balance of spend between and within traditional core services (BBC One or Radio 2, for instance) and new digital ones (such as BBC Three or BBC 7). In particular, they will ensure that the quality and range of existing services is not compromised by the proposed launch of new ones.

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In this chapter, we have set out the BBC's proposals for demonstrating and measuring the public value of its services over the next decade. We believe they amount to a radical change in the scrutiny and accountability of BBC service performance and development. In Part II the Governors describe how these new methods will be embedded within a strengthened governance system.

In the next chapter, we examine the implications of this public value framework for the BBC's range of services in the future.

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# Chapter 5: The breadth of BBC services

To serve audiences well in the future, the BBC will need to continue to offer a wide range of services and retain flexibility. In particular, we want to make the BBC's content increasingly accessible, personalised and convenient. However, the transformation of the BBC's range of linear channels for the next decade is now complete, and any future growth will be within the clear limits of the public value test.

The future size and scope of the BBC is one of the main issues for this Charter Review. Some argue that the BBC is now too big, that it crowds out too much commercial investment, and even that it has become a source of market failure in its own right.

In the debate about the BBC's size, there are two distinct issues that need to be considered separately. The first is the *breadth* of the BBC – its range of services across different media and for different audiences. The second concerns the *depth* of the BBC – that is, the kinds of activities the BBC undertakes itself, from production and studio management to commercial activities and central functions.

Our view is that the answer to both the breadth and depth of the BBC should be driven solely by public value. In the case of the BBC's breadth, does the public value of each service, including a consideration of its market impact, justify its existence? Are there some services that would fail this test of public value and which should therefore be changed or closed down? In the case of the BBC's depth of activities, what is the public value in the BBC owning programme-making capabilities, or a magazine business, or its own studios?

In this chapter, we look at the BBC's breadth of services in the light of these questions. In Chapter 6, we turn to the depth of the BBC's activities, and to the future size, shape and behaviours of the BBC as an institution.

## 5.1 The public benefits of the BBC's breadth of services

The BBC is a large, multimedia broadcaster within the UK's broadcasting landscape, offering a wide range of services across television, radio and online. Because of its service breadth, it brings a range of public benefits:

**First, a guarantee of universality.** Because the BBC has a wide range of services, it has the means to ensure universality and fairness – making sure that no group in society is excluded and that everyone has access to high-quality programmes across a wide range of genres. As argued in Chapter 1, universality and equity of provision are the foundations of public value in broadcasting.

**Second, a benchmark for quality.** The BBC accounts for 40% of all UK programme investment, and therefore acts as a benchmark for other broadcasters, raising the

public value of the whole system. To compete with the BBC, ITV and Channel 4 invest substantially more in UK original content than they have to by law or than their European peers<sup>71</sup>, and their investment in turn ensures that the BBC aims high. Digital channels also have to attract audiences away from the BBC. It is a powerful and efficient competitive model which generates better content for audiences.

**Third, institutional effectiveness.** The BBC's breadth of services gives it the institutional capability to meet a range of public needs that a more fragmented system would find difficult to replicate:

- *Finding and developing creative talent.* As a large institution, the BBC is able to nurture talented people in a way that smaller or fragmented public institutions could not. The BBC's breadth enables it to give a long-term commitment to develop people across all media, both in the UK and internationally.
- *Training.* The BBC's contribution to training is a function of its size. It can invest over £40m a year in training – of great benefit to the industry as a whole – because it is a large public broadcaster. This investment will be increasingly valuable to the industry as new digital skills are needed and as commercial broadcasters' training budgets come under pressure.
- *Risk-taking and innovation.* The BBC has a track record of risk-taking in programme-making. Because of its range of channels, it can experiment and manage failures as well as successes. This document has touched on many successful examples, from *The Big Read* to *The Office*.
- *Major infrastructure investments.* As the UK moves towards digital switchover, the BBC will need to play a leading role in planning, developing and building universal digital networks. It is in large part the BBC's scale that will enable it to support this transition.
- *Local, national and global networks.* The BBC's local, national and global networks enable it to operate at many different levels and connect people in different ways. Its local news services, for example, are increasingly able to explore the implications of world events for local communities, while the World Service can only exist because of the quality and range of the BBC's newsgathering and editorial strength.
- *Multimedia capability.* The ability of the BBC to offer content and events across a range of media devices, services and platforms can lead to far greater impact than more fragmented investment could achieve. For example, much-loved cultural events like the *BBC Proms* can be given life across a range of services – on Radio 3 and the World Service, on BBC One, Two and Four, through streaming on the BBC website, and at live events around the country.

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<sup>71</sup> Oliver & Ohlbaum Associates, *UK Television Content in the Digital Age*, 2003, indicates that ITV has the highest programme spend of any commercial network outside the USA and that Channel 4 has the fourth highest programme budget in Europe. *Television Fiction in Europe*, 2002, by the European Audiovisual Observatory indicates that the UK has the highest number of peak-time network hours devoted to new drama and comedy, over 1,000 hours in 2001 compared to 400 hours in France and 460 hours in Italy.

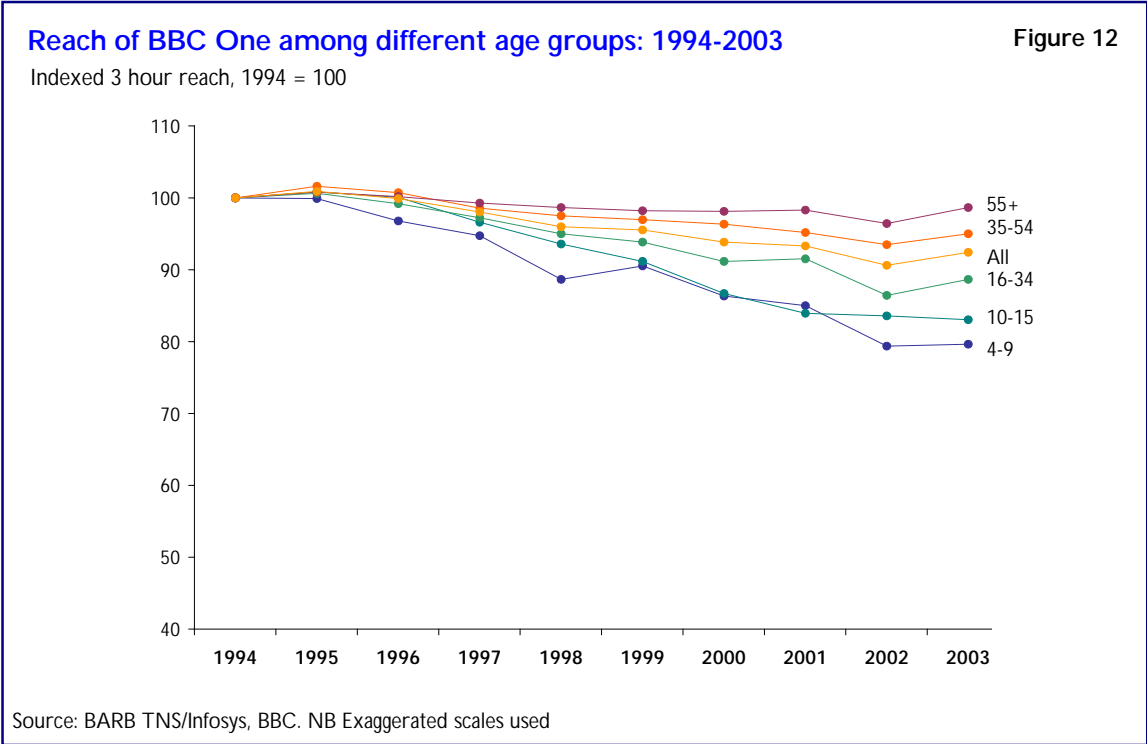
These are tangible sources of public value that the BBC's breadth of services can bring to the system as a whole. But to serve audiences well, the BBC needs flexibility as well as range. It has adapted its range of services constantly over the past 80 years, aiming to harness the public value opportunities in each new medium as it has developed – from short wave radio and black and white television to FM radio, colour television and Ceefax. Without this flexibility, public service broadcasting would long ago have lost its relevance and impact.

The last decade has been one of the most dramatic periods of adaptation the BBC has ever faced. In the next section, we look at the reasons for it and its impact so far.

**5.2 New BBC services for the digital era**

As a universal public broadcaster, one of the primary drivers behind the BBC's digital transformation has been its need to continue to reach everyone as audiences' use of media changes.

Over the course of the 1990s, the BBC's reach fell. This was because fewer people wanted to watch large mixed-genre channels like BBC One and ITV, instead preferring new targeted digital channels. BBC One's weekly 15-minute reach fell by 7.5 percentage points to 83.8% between 1993 and 2003; ITV1's reach fell by 11.9 percentage points over the same period, to 79%<sup>72</sup>.



The loss of reach was most serious among young people (Figure 12) and ethnic minorities in particular. Young audiences have been strongly attracted to new digital channels such as Cartoon Network and Disney Channel for children, and MTV, E4

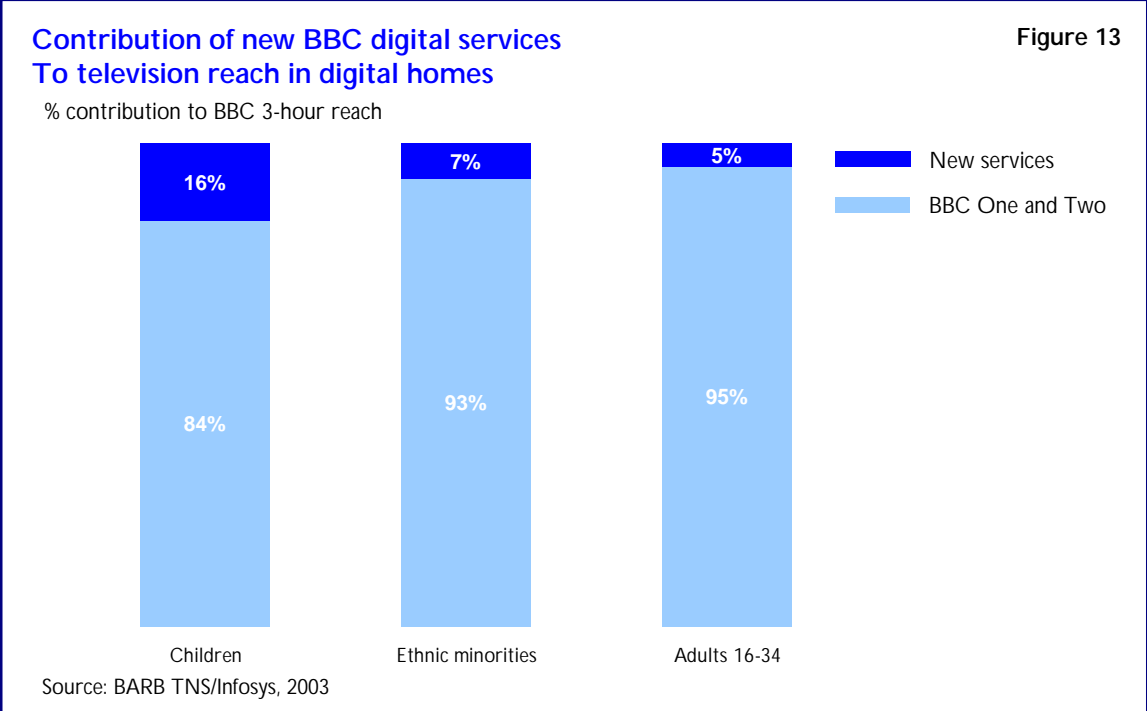
<sup>72</sup> BARB, TNS/Infosys, 2003

and Sky One for younger adults, showing mainly programmes imported from the US. In 2003 in digital homes, BBC One's weekly 15-minute reach at 79% was nine percentage points lower than in analogue homes, and for children and ethnic minorities it was lower still at 66% and 70% respectively<sup>73</sup>.

The BBC's response was to launch a new portfolio of digital services – six new television services, five radio channels and an online service, [bbc.co.uk](http://bbc.co.uk). The first new launches were BBC News 24 and BBC News Online in 1997, ending with the latest in March 2003, BBC Three, a digital channel for younger adult audiences. The new channels are rich in UK-made content, and, with the exception of CBeebies, Five Live Sports Extra and BBC 7, each carries its own tailored news broadcasts.

Each new channel and service was based on a rigorous assessment of the public value it would bring, and on its likely impact on the commercial market. The scrutiny was intense. Every service proposal was evaluated by the BBC's Board of Governors and then by the Department for Culture, Media and Sport, which consulted widely with audiences and the industry over each proposal. In the case of the most controversial new service, BBC Three, the approval process took nearly two years.

Though it is early days, there are clear signs that the new services are helping to reverse the BBC's decline in reach, particularly among younger and ethnic minority groups. In 2003, the digital services already accounted for 16% of the BBC's reach to children, 7% of its reach to ethnic minority audiences and 5% of reach to 16–34 year old adults in digital homes<sup>74</sup> (Figure 13). The continued growth of digital homes will mean that the new services will have an increasingly important role to play alongside the BBC's traditional multi-genre services in ensuring the BBC is able to reach all audiences with high-quality UK-made programmes.



<sup>73</sup> BARB, TNS/Infosys, 2002

<sup>74</sup> Ibid

## The BBC's new digital services

The BBC has launched six new digital television services, five new digital radio networks and [bbc.co.uk](http://bbc.co.uk) over the course of the last Charter period.

### Television channels

- **CBeebies and CBBC:** distinctive, safe, educational and entertaining British television for 2–5 year olds and 6–12 year olds respectively. Free of advertising and rich in interactive content, these channels reach nearly half of all children in digital homes. CBeebies is the most watched children's channel in digital homes and CBBC now ranks alongside Boomerang as the most popular school-age channel.
- **BBC Three:** the only UK network that offers the full range of public service broadcasting to young adults, including news, science, music and the arts in the heart of the schedule, alongside the best new British drama, comedy and entertainment. Risk-taking and innovation is prized over proven formats, and new talents can learn their craft in a safe creative space.
- **BBC Four:** brings new depth to audiences passionate about the arts, documentary, culture and global affairs. It has the highest reach of any thematic channel offering documentary, performance and drama.
- **BBC News 24:** offers a continuous live news service, available 24 hours a day in digital homes, on BBC One overnight and on analogue channels when there is significant breaking news. It delivers fast, comprehensive coverage of events as they unfold and provides specialist analysis to put news in context.
- **BBC Parliament:** offers comprehensive coverage of all the parliaments and assemblies which govern the political life of the UK. It is the only UK channel dedicated to politics, fifty-two weeks of the year.

### Radio services

- **1Xtra:** provides a full range of contemporary black music for a young audience, aiming to promote UK talent in genres dominated by US artists. It provides a bespoke news service covering areas of particular interest to its audience.
- **Five Live Sports Extra:** a part-time extension of Radio Five Live, bringing sports fans a greater choice of coverage and uninterrupted commentaries while extending the value the BBC gets from its broadcast sports rights. In 2002/03, Sports Extra broadcast 1,216 hours of commentary.
- **6 Music:** supports British and international artists generally not heard elsewhere and puts popular music, from the 1970s to today, in context. It makes extensive use of the BBC's archive to provide compilations of the best concerts and sessions recorded in the past by the BBC.
- **BBC 7:** broadcasts programmes from the BBC's speech archive, including comedy, readings and dramatisations, both classic and contemporary. It provides four hours of programming for younger listeners every day.
- **BBC Asian Network:** provides high-quality news, sport, music and religion for the UK Asian community in five different Asian languages as well as English. It provides a forum for the debate of Asian issues and plays the best of UK Asian music.

### [bbc.co.uk](http://bbc.co.uk)

[bbc.co.uk](http://bbc.co.uk) encompasses the BBC's internet services. It provides over two million web pages and 200,000 audio and video clips, offering a public service resource to enable its 10 million users to explore topics of interest and to enter into dialogue with each other and with the BBC.

The BBC now has a coherent channel portfolio for the digital era, with five different types of service:

- **Mainstream services** (BBC One and BBC Two, BBC Radio 2, Radio 4 and Radio Five Live and [bbc.co.uk](http://bbc.co.uk)): these services are central to maximising public value, bringing high-quality content across many subjects to large audiences, providing the focus for genuine shared experiences and guiding audiences through to more specialist, and sometimes more challenging, material on other services.
- **Audience-targeted services** (BBC Radio 1 and 1Xtra, BBC Three, CBBC and CBeebies, BBC Asian Network): focused on harder-to-reach audience groups, defined by age or ethnicity. The content appeals to their interests, needs and attitudes, encompassing a range of distinctive subject matter reflecting the BBC's public purposes.
- **Special-interest services** (BBC Radio 3, BBC Four, BBC News 24, BBC Parliament, Five Live Sports Extra, 6 Music, BBC 7, some [bbc.co.uk](http://bbc.co.uk) services): offering added value through deeper, extended, more specialist content in particular genres. These services build value in depth rather than range, often taking advantage of the BBC's investment in large-scale resources (such as newsgathering, orchestras and music archives) to extend output.
- **Specific services for the nations, regions and localities of the UK** (BBC Scotland, BBC Wales, BBC Northern Ireland, BBC English regional television, BBC local radio, *Where I Live* websites): these are the voices of the devolved and decentralised BBC, produced by and speaking to over 80% of the UK who live outside metropolitan London, and covering a broad range of topics and genres.
- **International services**: the BBC's global news services – BBC World Service radio, BBC World and [bbcnews.com](http://bbcnews.com) – represent a coherent and modern range of global news services across radio, television and online. The BBC is the only international broadcaster with a significant presence in all three media. Radio and internet services are funded by the Foreign & Commonwealth Office; the television service is commercially funded.

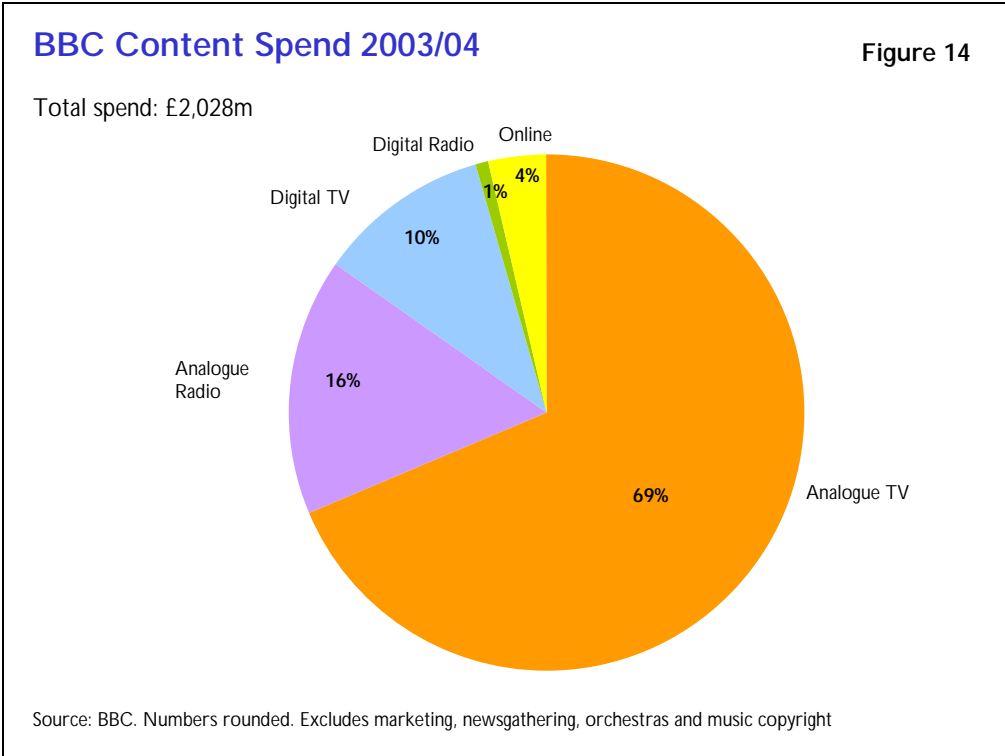
Public service broadcasters in other countries have adopted a similar strategy: RAI in Italy now has six television channels, ARD/ZDF in Germany has eight, and ITV has announced its intention to develop a stable of five television channels. Swedish Radio now offers a portfolio of seven digital services and Danish Radio offers ten DAB services.

The BBC's development of its service portfolio has been in line with the conditions of the BBC's licence fee settlement in 1999. When the Secretary of State, Chris Smith, announced the settlement in February 2000, he said: "*We welcome the fact that the BBC's main priorities for the next seven years are: improving established services; expanding education work; developing interactive services; and devolution in national and regional broadcasting*".

The BBC has spent its additional income and the proceeds from its self-help activities in line with its commitments to the DCMS. Between April 2000 and March 2004 it had made the following progress against these priorities:

<b>Cumulative additional investment 2000/01–2003/04 (99/00 price levels)</b>	
<b>Activity</b>	<b>£m</b>
BBC One	523
Interactivity & digital services	429
Education <sup>75</sup>	29
Nations & Regions	164
Other	29
<b>Total</b>	<b>1,174</b>

As a result of this strategy, the BBC now spends 15% of its content budget on digital services (Figure 14).



### 5.3 The need for flexibility

The BBC will continue to need flexibility to adapt as the world changes. As the extraordinary rise of the internet has shown, the future is likely to be full of surprises. We believe that the main areas of investment will be in distributing BBC content. We

<sup>75</sup> Investment in education will increase significantly with the launch of the BBC Digital Curriculum – a commitment of a further £150m



want to make BBC programmes as easy to find, convenient and accessible as possible.

Our aim will be to maintain audience reach of at least 90% over the coming years – though we know this will be challenging. We will have to work particularly hard to engage young audiences, the biggest users of new technology, by making BBC public services available on different distribution platforms as they become ‘must haves’ for the new generation. This means that future changes in the BBC’s service portfolio are likely to be mainly around distribution, not content.

Our commitment to making the BBC’s programmes available on demand is a core plank of this strategy. We believe that broadband is the key to turning the BBC’s rich content into a truly public resource for the nation, by enabling people to cut, sort and select what they value, rather than being constrained by the scheduling choices of broadcasters. The public value of this breakthrough could be as great as, or even greater than, for television and radio. We therefore believe that the BBC must and should treat broadband as a public service medium alongside radio and television, though within a clear and agreed rights strategy that properly rewards content creators for their investment and risk-taking.

## 5.4 The BBC’s size in perspective

Some people are unconvinced by these arguments and would prefer to see a smaller BBC with a narrower breadth of services. They believe the BBC is too large in the UK’s media landscape and that it limits commercial success. We would make four points in response.

First, there is little evidence that the BBC depresses commercial success for the UK’s media industry. In fact the opposite seems to be true. The UK is home to the world’s most successful pay-TV operation, the biggest independent television production sector in Europe and the largest television export business outside the US. A new analogue television channel, five, has successfully entered the market within the last decade. The UK leads the world in digital television and radio take-up and has been a technical innovator in many fields. These are not the hallmarks of a struggling or crowded-out media industry.

Second, it is important to see the scale of the BBC in perspective. The BBC currently accounts for less than a quarter of UK media revenues, compared with 46% at the beginning of this Charter period nine years ago. If its income were frozen in real terms at the end of 2006, its share of revenues would be around 18% by the end of the next Charter period (Figure 15). In relative terms, the BBC is getting progressively smaller.

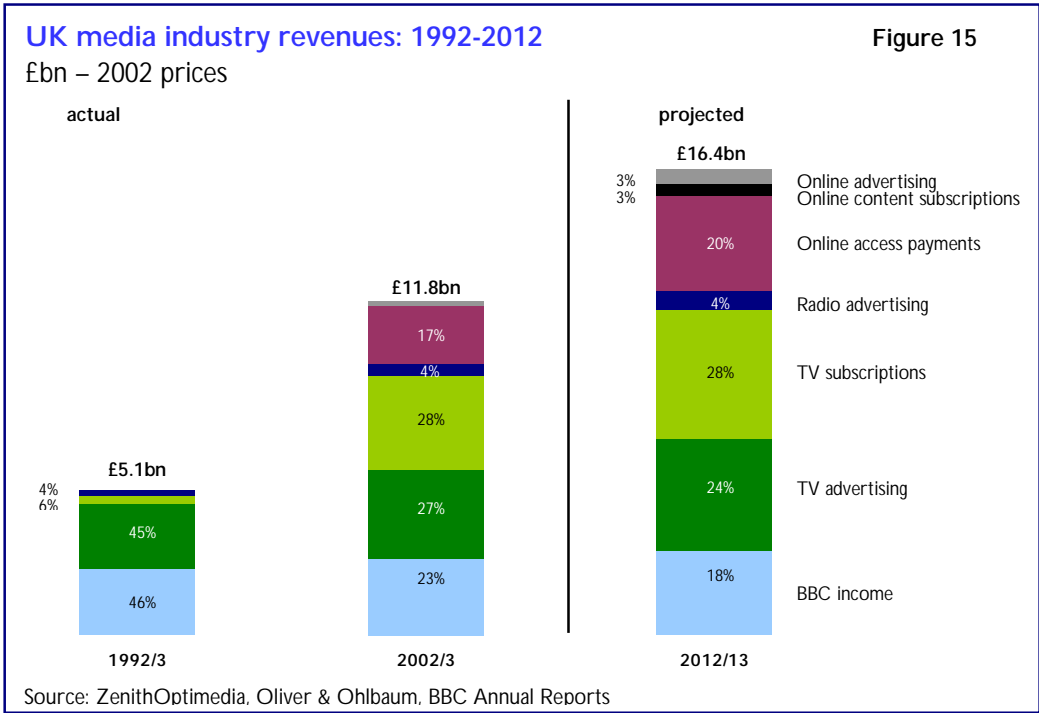
Meanwhile, other media organisations are getting bigger. A combined ITV will have revenues of £2.4bn by 2007<sup>76</sup>. BSkyB already has revenues 26% higher than the BBC, and they are projected to be over 40% higher by 2007<sup>77</sup>. The picture is the

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<sup>76</sup> Investec, 2004

<sup>77</sup> See Figure 9, page 57

same in radio, where commercial radio revenue growth has been 40% higher than the growth rate in BBC licence fee revenue since 1984, and is projected to grow at over 7% per year to 2007<sup>78</sup>.



And finally, as already noted in Chapter 1, the great majority of the British people are willing to pay for the BBC’s services at the current level of the licence fee.

Another way of addressing this question is to examine the impact of reducing the breadth of the BBC’s services. Every option would reduce the BBC’s reach and therefore the value it offers to licence payers. For example, if all the BBC’s digital services were closed, this would save about £415m, but the impact would be to freeze the BBC in the analogue era, so that its reach would return to the declining trend of the late 1990s. The budget of BBC One could be cut (a 10% cut would deliver £80 million), but it was the increased investment in BBC One that has allowed it to restore its falling reach since 2000. Or Radio 1 and BBC Three could be closed, privatised or taken out of the BBC. But this would remove one of the BBC’s main ways of maintaining its value to young people within a universal system.

Overall, we believe there is little evidence that the BBC’s breadth of services, taken as a whole, is too great for today’s media world. On the contrary, we would submit that it is one of the reasons for the enduring success of the UK’s public service broadcasting system.

In the next chapter, we turn to the shape, scale and behaviour of the BBC as an institution. Again, public value must be the starting point.

<sup>78</sup> Radio Advertising Bureau; BBC; Advertising Association, *Advertising Statistics Yearbook*, 2003

## Chapter 6: Renewing the BBC

The BBC's vision for its future calls for radical changes in attitude and organisation. The BBC has an extraordinary wealth of creative talent in its production departments and a recognised heritage of excellence in many fields. But it is now time for a thorough examination of its activities against the test of public value and the interests of licence payers. We are committed to making the BBC of the future a more open and responsive organisation.

Historically the BBC has been a relatively closed organisation. It has guarded its independence fiercely and has tended to try to do most things itself – in common with many other public organisations. This model was perhaps suitable for a world of one-way broadcasting, but it is not appropriate for the modern world. Today's audiences, contemporary public standards and the opportunities and challenges of the next decade all demand a more responsive BBC. This calls for a more open climate within the BBC, with improved access for independent and regional programme-makers, commercial partners and other parts of the public and private sector. The BBC will also be more open to the public themselves – as individuals, as citizens, and, above all, as owners.

This chapter sets out our plan for renewing the BBC as an institution for the next decade. It has four main parts:

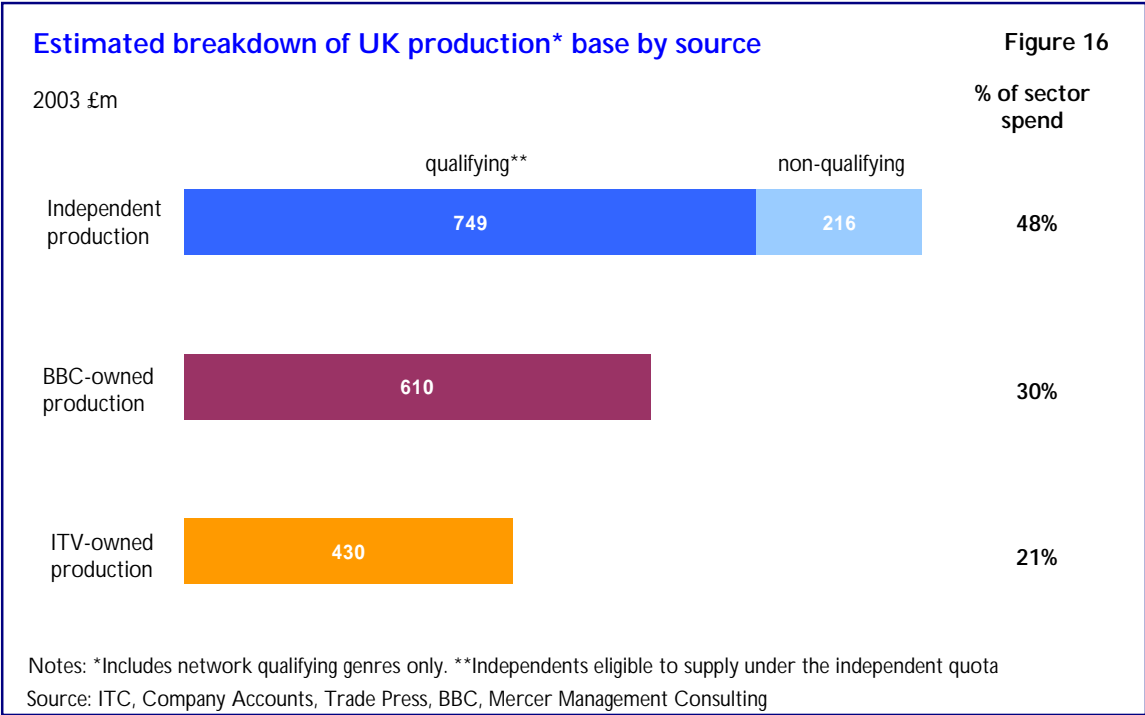
- The application of a test of public value to the BBC's in-house activities. Over the next few months, we will conduct comprehensive reviews of the BBC's production and commercial activities. In both cases, we will assess the balance of in-house and external provision, and, where it makes more sense to source from an external partner, a change will be made. The production review will report in autumn 2004, and the commercial review by the end of the year.
- A new approach to partnership. The BBC will launch a Partnership Contract in late 2004 that will make it easier for other organisations to share the BBC's resources and assets in the public interest, involving clearer structures, performance measures and points of contact.
- A less London-centric BBC. Over the course of the next decade, the BBC will move people, resources and creative investment out of London to better reflect the life and experience of the whole UK. Detailed proposals will be announced later this year.
- A BBC more open to its audiences. Modern audiences demand a more responsive BBC. This will involve a new approach to complaints, communication and consultation with the British public.

The rest of this chapter sets out our thinking in each of these areas.

### 6.1 Ensuring the best programmes for audiences

The BBC’s single-minded goal in its commissioning and production must be to ensure the best programmes for its audiences – across radio, television and online. We believe that a core plank of the BBC’s strategy to achieve this must be a more open and collaborative approach to the wider creative community. A second plank will be a deep and ongoing commitment to extensive in-house BBC production in many areas. The BBC’s production departments have an exceptional record of wonderful programme-making and will have an enduring role in creating a new generation of memorable programmes for British and world audiences. But a test of public value needs to be applied to content production as in other areas.

The BBC currently commissions its programmes from a mixed production base: its own in-house programme makers; the independent production sector; and the crucial third part of the UK’s production base, its 35,000 freelance writers, actors, directors and technicians<sup>79</sup>. Each element brings a complementary set of strengths to the mix.



**BBC in-house production:** The BBC’s wholly-owned programme-making activities account for around 30% of the £2.0bn UK television production market<sup>80</sup> (Figure 16) and bring a range of benefits to British audiences. Consistently, BBC-made programmes such as *The Office*, *The Way We Live Now*, *Dead Ringers*, *The Secret Policeman*, *Life of Mammals*, *Great Britons*, *Seven Wonders of the Industrial World*, *Balamory*, *Little Britain*, *Canterbury Tales* and *Strictly Come Dancing* have delighted

<sup>79</sup> Skillset, *Industry Census*, 2003

<sup>80</sup> For qualifying network genres: all original UK network programming excluding news, sports rights, Open University and party political broadcasts

audiences and broken new ground. BBC programme makers are able to take a long-term view, encouraging innovation in challenging areas. Some BBC production areas, like natural history and classical music, have become world-class production and export departments, despite the high risk and investment required – *The Blue Planet* took five years and £6m to make. The BBC is also able to ride out the cycle of the market by investing for the long term in areas like science and investigative journalism that might otherwise come and go with the market.

Because of its scale, the BBC is able to attract around 70% of total overseas co-production investment in UK high-cost programmes – over £22m in 2003. Two-thirds of the budget for *Pompeii: The Last Day*, for example, came from commercial co-producers. At the same time, the breadth of the BBC's production capabilities enables it to deliver complex, multi-location events.

The BBC's production activity helps to underpin the regional diversity of the UK production market. It acts as a magnet to attract and support other media companies – notably in Bristol, Cardiff, Belfast, Glasgow and Birmingham. This role will be increasingly important as ITV faces pressures to concentrate programme-making in the south of England. Section 6.4 below sets out our plans to strengthen the BBC's regional contribution in the future.

Rights are an important consideration. The BBC is able to retain nearly all the rights in the programmes it makes. Programmes produced in-house are therefore largely owned by its audiences who, as a result, can see or listen to them again. The success of the BBC's Creative Archive proposal (see Chapter 3) hinges on the BBC's ability to retain the rights to the content it broadcasts so that it can make this content available to audiences on emerging on-demand and broadband platforms at no extra charge.

The BBC's continued commitment to strong in-house production is typical of many major broadcasters around the world. Companies as diverse as NHK in Japan, RTVE in Spain and HBO in the US produce around 90% of their original content themselves – substantially more than the 75% produced by the BBC today.

**The UK's independent production sector:** Programme-making by independent producers accounts for just under half of the UK television production market, making it nearly 60% bigger than BBC in-house production in scale. It makes a vital contribution to the UK production industry and to the BBC in particular. It is hard to imagine BBC schedules without independently-produced programmes like *Have I Got News For You*, *They Think It's All Over*, *Spooks*, *Monarch of the Glen*, *Byker Grove*, *Teletubbies* or *Ground Force*. Independents are also injecting fresh ideas, diversity of thinking and innovative formats into public service broadcasting in programmes such as *Test the Nation*, *Monkey Dust* and *Restoration*.

These programmes are evidence of a strengthening relationship between the BBC and independents in recent years. In 2003/04 the BBC spent over £240m with qualifying independents<sup>81</sup>, across all parts of the UK. This was an increase of nearly 60% since 2000/01, and the BBC now accounts for about a third of the sector's

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<sup>81</sup> Independent production companies which are not majority-owned by broadcasters and where no broadcaster has an equity interest of 25% or more

revenue. Last year the BBC commissioned over 170 companies in television, most of them with revenues under £6m. Nearly half of BBC Three's programmes were supplied by 31 independents. BBC Four has commissioned programmes from 74 independents, 37 of which were new suppliers to the BBC.

Several independents, like Endemol, RDF and Lion Television are now successful international businesses, and the industry is consolidating fast. As it changes, it may increasingly align investment with the needs of global markets, creating commercially valuable formats with long shelf-lives and strong international appeal. This is a welcome development that will contribute to the financial health of the sector, but it creates risks for the distinctive British nature of UK-made programmes.

In radio, the BBC is the only broadcaster in Europe to commission a significant amount of output from independents. Within the UK the BBC has had a voluntary commitment in place since 1996 to commission at least 10% of its network programming from independent producers. It has consistently exceeded that target and currently commissions around 13% externally. There are ongoing discussions between BBC radio and the independent production sector with a view to developing the relationship with the sector still further. The commercial sector commissions virtually no programming from the independent sector.

The role that external producers play in [bbc.co.uk](http://bbc.co.uk) is also different from television. Web content production is more fragmented and has a less well-established value chain. The BBC's current level of external investment is around 13% of total BBC internet spend excluding distribution and we plan to increase this significantly in the future.

**Freelance contributors to the BBC:** Freelance contributors are the third and vital leg of the BBC's production base, made up of up to 10,000 independent-minded creative people who come in and out of the BBC to write, direct, act and compose on a short-term basis. People like Armando Iannucci, creator, co-writer and director of *I'm Alan Partridge*; Paul Abbott, who wrote *Clocking Off* and *State of Play* for the BBC; Andrew Davies, whose writing for the BBC has included *The Way We Live Now*, *Daniel Deronda* and *He Knew He Was Right*; and Richard Curtis, who created *Not The 9 O'Clock News*, *Blackadder* and *The Vicar of Dibley*. They bring enormous talent, often with more than a dash of genius, to British programme-making, and it is the BBC's job to support them in creating great original work.

Though each of these three elements contributes greatly to the success of British programme-making, it is the interaction of the three sectors that is most effective. The mixed economy sustains a plurality of ideas and creative competition. Creative people can move within and between the three sectors. Competition between the sectors leads to better ideas and provides a means of benchmarking and improving efficiency. Each side helps to keep the others honest, and it is audiences who benefit.

Looking ahead, we believe that the BBC should continue to sustain strong in-house programme-making within this mixed ecology. However, we want to make it a more open, fair and balanced system. In particular, we recognise that the relationship between the BBC and the independent sector must be founded on mutual respect,

fair and transparent trading terms and open partnerships. The BBC has not always honoured these principles as well as it should. Our commitment for the future is to ensure that we do. Specifically, we will:

- **Establish a fully level playing field between in-house and independent television programme makers in all programme areas.** The BBC has listened and responded to the concerns of independent producers over the past two years. Transparent, rigorously enforced commissioning timetables have been introduced. All formal processes for in-house producers are mirrored for independents with an unequivocal commitment to a level playing field. At present, some genre areas work better than others. Our aim is for all independents to feel that they are fairly treated compared with in-house producers, across all qualifying programme areas.
- **Ensure that independents receive a fair commercial deal.** Again, radical changes are under way. The BBC was the first broadcaster to submit its new Code of Practice to Ofcom, setting out how the BBC proposes to work with the independent sector following the ITC's rigorous Programme Supply Review. Now approved, the BBC's Code, together with new terms of trade, ensures a transfer of value to independent producers and offers them the most radical change in growth prospects of any time since the sector began 20 years ago. It fully acknowledges that independents are businesses as well as programme makers. In addition, clear blue water has been established between the BBC's television commissioning and BBC Worldwide, its commercial subsidiary. The new trading environment has revitalised the interest of investors in backing independents and most independent executives agree that significant and positive changes will take place in their industry over the next decade.

*“Half a dozen major producers will emerge as the dominant forces and they will be managing sizeable businesses (£75m+ turnover in today's terms). There will still be numerous smaller indies but we won't think of the sector as a cottage industry. We'll think of it as a vibrant, commercially aware, creative sector which attracts the very best people in the business.”*

David Frank, chief executive, RDF Media, *Pact Magazine*, 2004

- **Make sure the 25% independent television quota is at all times a floor, never a ceiling.** The BBC will exceed the quota in 2003/04, and will ensure that the same is true over the coming years. Quota levels differ widely by genre – for example, independents already account for over 50% of commissions in Entertainment. As the changes described above work through the system, we would expect the relative balance of commissions between the two sectors will settle naturally above 25%.

Our longer-term vision is for more flexibility in the relationship between the in-house, independent and freelance sectors. We would like to explore the scope for creating one or more 'production villages', which borrow from the US university campus idea in which commercial and not-for-profit organisations live side by side, using their respective strengths to enhance innovation and dynamism. The idea is that independents, particularly smaller ones, could be free to choose to move onto BBC sites and have access to BBC talent and experience, with tailored development

deals. This could not only help to stimulate breakthrough innovation, but also help to preserve plurality in the independent sector as it consolidates.

In parallel, we want to open up further our in-house production departments to people from as many backgrounds and walks of life as possible. Substantial progress has been made in recent years. For example, the proportion of ethnic minorities in BBC production departments has risen from 8% to 10% since 2000. Our next priority is to make the BBC an easier place in which people with disabilities can flourish. Again, it is our audiences who will benefit from a richer range of programmes.

This summer, the BBC's management will lead an in-depth review of its commissioning needs and production base in all media. In the review, the BBC will consult with independent producers, the freelance sector and other external stakeholders, as well as with the BBC's own production community. It will include consideration of the independent television quota and existing voluntary quotas in network radio and online, and we would expect as a result of the review to introduce a voluntary independent quota for the nations' radio services. The review will report to the Board of Governors in autumn 2004, and will set out a new supply strategy for the BBC.

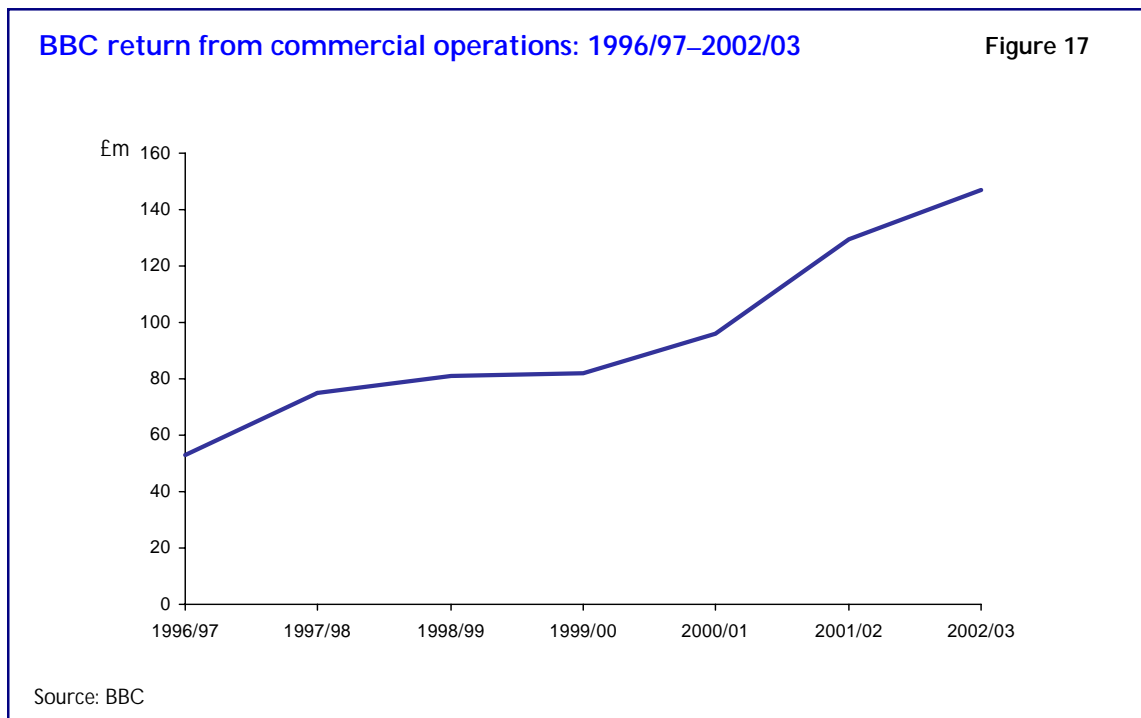
## **6.2 Commercial activities in the public interest**

The BBC has commercial activities for one reason only – to serve the British public better. It seeks to exploit the assets created by licence fee investment – such as programme rights, studios and other broadcasting assets – in commercial markets in order to keep the BBC's call on the public purse as low as possible. All commercial income generated is used to invest in the BBC's public services. We are committed to continuing this strategy in the next Charter period.

Successive governments have tasked the BBC to exploit its assets commercially as effectively as possible. For example, following the introduction of the current Charter in 1996, then Secretary of State for National Heritage, Virginia Bottomley, wrote to then BBC Chairman, Marmaduke Hussey, to say: "*The BBC must take full advantage of the new commercial opportunities which are now available ... I hope that the BBC will exploit overseas markets to the full, building on its strengths and global reputation and playing its part in enhancing UK competitiveness.*" That challenge was repeated by Chris Smith in 2000 and again by Tessa Jowell in November 2003 in their roles as Secretary of State for Culture, Media and Sport.

Over the last Charter period, the BBC has risen to this challenge. In 2002/03 commercial operations contributed £147m to the BBC to be used for public service broadcasting, equivalent to nearly £6 per licence payer per year. This was up from £53m in 1996/97, an almost three-fold increase (Figure 17). The BBC's commercial income comes from two subsidiaries: BBC Worldwide, the BBC's business-to-consumer arm which exploits programme, video, publishing and other ancillary rights in the UK and around the world; and BBC Ventures, the BBC's business-to-business arm, which builds commercial businesses in studios, broadcast resources and, until the business is sold later this year, technology.





The BBC's commercial activities deliver a range of important benefits. In particular, they:

- Generate extra funds, increase efficiency in the use of BBC resources and build long-term asset value to support its core public service output
- Extend audience appreciation of BBC content by offering a range of products linked to programmes, such as books, videos and multimedia products, while BBC commercial channels offer further chances to see BBC programmes
- Help to raise awareness around the world of the UK's cultural values
- Build international audiences for UK content, creating a cultural bridgehead for UK talent around the world and raising awareness of the BBC brand
- Enhance the BBC's position as a global media player, enabling it to provide a counterweight to increasingly dominant overseas multimedia empires and to support the UK's reputation for quality and impartiality around the world

As set out in Chapter 3, we intend to build on these benefits over the course of the next decade by expanding the BBC's global channel portfolio and cross-format capability into new foreign markets, working closely with partners around the world.

However, some people still have concerns about the BBC's commercial activities. They raise three main issues: the appropriate scope of the BBC's commercial activities; whether the BBC needs to own them; and how to ensure the BBC trades fairly in commercial markets. We plan to clarify the BBC's position in all three of these areas.

- **Clarifying the scope of the BBC's commercial activities.** The BBC has a responsibility to maximise the value of the assets and rights that licence payers invest in, provided this does not conflict with the needs of the public services. Our policy towards the scope of the BBC's commercial activities will be guided by the following clear principles<sup>82</sup>:
  - The BBC will only participate in commercial activities which add long-term value to the BBC, economically and/or strategically.
  - Commercial activities must have as an important part of their purposes either the provision of an essential service to the BBC, or the exploitation of rights or assets generated by the BBC for the benefit of licence payers.
  - Commercial activities will have at their heart the same values of quality and integrity which underpin the BBC's publicly funded activities.
  
- **A clear ownership policy.** The BBC aims to use the most appropriate business structure to maximise returns for each commercial activity. This results in a wide range of different ownership models, from wholly-owned subsidiaries, through joint ventures and partnerships, to pure licensing deals<sup>83</sup>. In 2002/03, using the wholesale value of BBC Worldwide's licensing activities (for comparability), less than half of the revenues from BBC Worldwide's products and services were generated by wholly-owned BBC subsidiaries. In the future:
  - The BBC will own businesses only where there are demonstrable public benefits. For example, the BBC's ownership of commercial channels in the UK and abroad, such as BBC America and UK Gold, has created assets capable of delivering substantial revenues back into the BBC for programmes – far more than would have been possible if the BBC had simply licensed its programmes to other channels.
  - Businesses will be divested if the public benefits of BBC ownership – that is, the cash returned to the public services or the protection and promotion of BBC brand values – are not sufficient to justify a direct presence in the market. The proposed sale of BBC Technology Limited is an example. Although BBC Technology delivered significant benefits to the BBC (£19m in profit and price reductions in 2002/03 alone), contracting out to a larger supplier should generate a further £20m–£30m in annual savings, plus a one-off payment for the sale of the business.
  
- **Ensuring fair trading at all times.** The BBC's commercial activities are subject to extensive regulatory scrutiny. In addition to competition law requirements, they face rigorous obligations in the form of the BBC's Fair Trading Commitment and Fair Trading Guidelines. We believe that current arrangements are satisfactory – no complaint to the UK or EU competition authorities against the BBC has been upheld in the last ten years. In a six month study in 2001, Professor Richard

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<sup>82</sup> The BBC will update its current Fair Trading Guidelines to reflect these principles.

<sup>83</sup> The BBC's *Review of the BBC's Royal Charter: BBC response to DCMS consultation*, 2004, contains more detail about the different business models used by the BBC.

Whish, Professor at Law at King's College London, concluded in a report to the DCMS: "*In my view, the fair trading policies of the BBC compare favourably with those of other undertakings. Indeed, I am not aware of any organisation that is subject to as much scrutiny – internally and externally – to ensure compliance with Competition Law*". But we believe there is further room for improvement, particularly in making the BBC's fair trading assessments more open and transparent. To this end, we will publish:

- A separate section in the Annual Report on the Fair Trading system that supports compliance with the BBC's Fair Trading Commitment
- Details of the annual Fair Trading audit conducted by independent auditors
- Minutes of the Fair Trading Compliance Committee meetings
- Information on commercial rights that have been placed externally

The BBC will launch a comprehensive review of its commercial activities to ensure that its activities meet the principles outlined above. Like the commissioning and production review, the commercial review will consult with external stakeholders and alternative partners as well as with BBC Worldwide and BBC Ventures, its commercial subsidiaries. We will set out a new commercial strategy for the BBC, addressing the issues of scope, ownership and fair trading. The review will report at the end of 2004.

### **6.3 A new approach to partnership**

The BBC's new digital mission will depend more than any previous BBC undertaking on a network of successful partnerships. Because digital technology can open up content and assets to be shared more widely by other organisations, the multiplier benefit of the BBC in the wider community is growing. The opportunities are exciting, but the BBC will need to change in order to seize them. It will need to become a better partner.

Recent examples show how powerful partnerships involving the BBC can be. For example, the BBC's partnership with heritage bodies to create the BBC Two series *Restoration* inspired huge new interest in historic buildings at risk (see box opposite), while its collaboration with the Royal Opera House is bringing world-class opera to audiences on BBC Two, BBC Four and Radio 3 on a regular basis.

The results can be spectacular. In 2003 the BBC World Service Trust's Aids campaign in India, involving many international organisations working alongside the BBC, reached 150 million people. BBC Children in Need, a network of charity partnerships, has raised £325m to date. *Crimewatch*, working with police forces around the country, has directly contributed to more than 800 arrests since it began.

## The power of partnerships: *Restoration*

The way multiple partnerships can transform the scope and impact of what might otherwise remain a worthwhile but essentially single-faceted TV series is powerfully illustrated by *Restoration*. Produced by Endemol in association with BBC Scotland, it began with the idea of turning the Buildings at Risk Register into a BBC Two series that would encourage people to get out and enjoy the UK's rich heritage of historic buildings and recognise the threat many face.

A network of ten key external partners signed up at the inception of the project, including The Civic Trust, English Heritage, Historic Scotland, CADW and the Heritage Lottery Fund. All of these contributed hugely to lifting the project off the television screens and into people's lives. When the series aired there was a steep increase in the number of visits to heritage sites and buildings, and record-breaking attendance at the 4,000 buildings specially opened in September 2003 for Heritage Open Day. More than 6,000 people also searched for courses on conservation and restoration through another partner, learndirect.

A total of 2.3 million votes were cast during the series, with viewers finally voting for the Victoria Baths in Manchester as the threatened building they most wanted to see restored. An astonishing 10,000 people visited the Baths in the week before and after the final; the organisers were hoping for 500. The £3m committed by the Heritage Lottery Fund towards the costs of restoring the winning project, together with substantial additional funding pledged by English Heritage, has now gone to the Baths – together with more than £500k donated by BBC viewers, raised through small contributions taken from every telephone vote received. A further series of *Restoration* broadcasts on BBC Two in summer 2004.

The BBC can be a particularly effective partner for other creative and cultural organisations, such as museums, theatres, art galleries and sports bodies. For example, the BBC's partnership with a range of galleries, including the National Gallery in London, to promote *Painting the Weather* led thousands of new users to explore famous works of art on [bbc.co.uk](http://bbc.co.uk) and in galleries across the UK.

The main strengths that the BBC has to offer potential partners are its local and community relationships, its power to engage large audiences on television and radio, and, perhaps most valued of all, the BBC's trusted brand. For example, local authorities who have worked with the BBC to put BBC multimedia learning buses on the streets have found that the arrival of these buses – which broadcast from local towns and villages and offer hands-on new media training – creates a stir of excitement they would find hard to replicate.

*“We would be nowhere near as successful if we put a learning bus on the road without a BBC logo. Nowhere on the outside of the bus does it say Lancashire County Council. We are very happy to take a back seat initially – but then to take the driving seat to convert the curiosity of bus visitors into learning opportunities. The BBC is the best brand name in the world. A partnership with the BBC brings the benefits of that branding to other organisations.”*

Anne Sturzaker, Adult and Community Learning manager, Lifelong Learning, Lancashire County Council, 2004

Our vision is that the BBC will have a wide range of many different types of partnership, with public and commercial organisations, that build greater public value than would be possible otherwise. They will span all the BBC's public purposes –

democratic, cultural and creative, educational, community and global. The BBC will be an open resource for other organisations, helping them to achieve their goals.

However, we know that the BBC can at times be difficult to work with. From the outside, it is not always clear how to reach the right people within the organisation, and the BBC can be slow to respond. Success criteria and objectives for partnerships are not always clear enough. We want to change this in a number of ways:

- By the end of 2004, the BBC will publish a 'partnership contract' setting out the principles and standards which the BBC will bring to any partnership; what any potential partner can expect from us; and how we will measure partnership performance.
- We will also post a partner's guide to the BBC on the web, creating new doorways into the organisation, establishing clear points of contact for potential partners, and encouraging them to see the BBC as an open creative resource.
- One of the BBC's most powerful creative tools is its cross-media programming and marketing capability – seen to such great effect in projects like *The Big Read* and *Hitting Home*. The BBC will seek to share this capability more widely with partners who can collaborate with it to fulfil both parties' broader public purposes, especially in the cultural and educational fields.
- The BBC will also explore new models of partnership with both public and private sectors. Ideas include the setting up of joint venture *public interest* companies and the creation of media villages around the UK, where the BBC provides space and infrastructure for independent production companies.
- Other priority areas include broadband, media literacy, new media learning and the overall objective of achieving digital television switchover.

The management's partnership plans will be reviewed by the Board of Governors, and, if approved, published at the end of this year. Our goal is to turn the BBC into an easy organisation for others to work with, so that its resources can be as widely shared as possible in the public interest.

## **6.4 A less London-centric BBC**

The BBC intends to increase investment in talent, resources and programme-making outside London. Our goal is to build a BBC that is more fully representative of the people it serves around the country.

Our plans build on a strong record of regional and national investment through the last decade. The BBC spends nearly £340m on local and regional programming – more than any other UK broadcaster. It has also significantly increased its spending on programmes for the main national radio and television channels (network programmes) made outside London. In the early 1990s, the BBC set itself a target to increase the proportion of network programming made outside London from a fifth to

broadly a third. Recent growth has been felt most powerfully in Scotland, Wales and Northern Ireland.

In the future, the BBC's responsibilities in this area will further increase, for two main reasons. First, ongoing pressure for devolution and local accountability will amplify the importance of effective representation of UK society in broadcasting. Second, commercial pressures are leading ITV to rationalise its regional infrastructure, a process that has already started following the merger of Granada and Carlton.

At the same time, the BBC has its own challenges to address. While over 80% of the UK's population live outside London, only 42% of the BBC's public service employees work outside the capital. Currently, very little of the BBC's decision-making power for network programming is based outside London. In addition, despite recent investment in programmes for the north of England, approval for the BBC is lower among northern audiences than in other parts of England – though now on an upward trend. Cost is a further consideration; London is an increasingly expensive base for the BBC's administrative and support operations.

We intend to address these challenges with a range of initiatives. These will include:

- Increasing network programme spending outside south-east England to ensure that we reflect the differing cultures of a more devolved UK
- Encouraging the development of production talent and the media industry right across the UK, for instance by developing the network production centres in Birmingham and Bristol
- Building on the success of network production in Scotland, Wales and Northern Ireland
- Making a sustained and substantial investment to establish additional television, radio and online broadcasting operations in the north of England (see box overleaf)
- Transferring more commissioning power outside the M25, helping to stimulate independent production across the country
- Moving administrative and support operations out of London where this saves money

## **A vision for the BBC in the north of England**

The BBC's commitment to network programmes from around the UK will be demonstrated by a new initiative to make Manchester the UK's largest broadcasting centre outside London. It will become a crucial element in the BBC's strategy by uniting a range of activities within a single creative vision: the audiences and services of the future.

We expect a range of BBC services to move from London to Manchester, in television, radio and online. The BBC's northern headquarters will be a model for an open BBC, bringing younger audiences into the building to engage with programmes and presenters. The centre will be responsible for building sustainable independent production across the north of England and developing broadcast talent and partnerships throughout the area.

This vision will take advantage of the strengths of the region: the north-west of England is the biggest economic region outside London, with a vibrant creative economy: 60% of its population is under 45 and it is at the heart of one of the largest student populations in Europe. In partnership with universities, cultural organisations and development agencies, we will cement the BBC's role in the future of the region and better serve licence payers across the UK.

Our targets for the end of the next Charter period are that:

- Half of all the BBC's public service staff will be based outside London
- We will spend at least £1bn a year on programmes outside London – an increase of around 35% compared with today
- We will move a fifth of commissioning decisions by value outside London

We want to use this shift in focus away from London to help the BBC reflect better the rich diversity of the UK in its output – through locations, scripts, portrayal, and creative talent that originate from all parts of the country. We believe it will help the BBC to commission and make better programmes.

We will consider a range of options for the services and production departments that will move from London to Manchester, and will announce detailed proposals later in 2004.

## **6.5 Opening up the BBC for audiences**

The BBC is unique in British broadcasting by virtue of its sole duty to serve audiences. It follows that the interests and needs of its audiences should be central to everything the BBC does. In its dialogue with audiences, in its standards of customer service to them and in all of its public-facing activities, the BBC will aim for its openness and accessibility to be exemplary.

BBC Information Centres and a new focus on customer service at all local BBC centres have transformed the BBC's performance when dealing with comments, enquiries and requests for information. In 2003, BBC Information handled nearly two million calls, letters and emails from audiences (of which less than 8% were

complaints). Feedback to programme makers has created a virtuous circle of information-sharing. Customer satisfaction with these services rose from 63% in 1998 to more than 85% in 2003<sup>84</sup>.

As part of a culture of greater accountability, we will also improve the information about the BBC itself held at [bbc.co.uk/info](http://bbc.co.uk/info). We will make it easier for audiences to understand how the BBC works, and create new dedicated points of public contact across the organisation, accessible to online users. We will be making a range of improvements to how the BBC handles complaints – these are set out in Chapter 8.

In the future, we will also make it simpler for audiences to tell the BBC what they think of its programmes. For example, building on Radio 4's *Feedback* programme we will launch a new weekly multimedia programme initiative to include BBC One and [bbc.co.uk](http://bbc.co.uk) that will encourage audiences to air their views. It will include features on how the BBC works and how programmes are made and will invite creative ideas – as well as comments on existing output – from audiences. We will also create a live, interactive 'right to reply' programme on BBC News 24, in which senior news managers will answer questions from the public.

Finally, we will implement new guidelines for responding to all contacts personally at all levels of the BBC within published timescales, and publicly measure our performance against them. We hope this will encourage many more people to believe that they can genuinely contribute to and influence 'their' BBC.

There is a double imperative here. The BBC wants audiences everywhere to feel they can affect BBC priorities and judgements. In addition, the BBC sees its audiences as a powerful source of creative inspiration, able to shape and contribute to output. To this end we will continue to pioneer new forms of direct audience involvement at a local level. For example, thousands of people have been encouraged to participate directly in a range of community-based broadcasting projects such as *Digital Storytelling* in Wales, *All Together Now* in inner-city Leeds and *Voices* in 48 different communities across the UK. Many have been given the opportunity to create their own content as a result, much of which has subsequently been broadcast.

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This chapter has set out the BBC's plans for renewing itself as an institution for the new media era. The next chapter turns to funding – how we believe the BBC's services should be paid for in the coming years.

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<sup>84</sup> MORI, Customer satisfaction survey of BBC Information, 2003



# Chapter 7: Paying for BBC services

Compared with the alternatives, licence fee funding remains the best way of paying for the BBC's services. It is a universal way of paying for what is essentially universal provision, while at the same time safeguarding the BBC's independence. But the BBC has a duty to keep the financial burden on licence payers as low as possible. We will therefore use self-help as far as possible to pay for the BBC's future plans.

From the very beginning, the BBC has been funded by a licence fee on receiving equipment – first, on radios; then, from 1946, separately on radios and televisions; and, from 1971, on televisions alone. Currently, 94% of the UK's 25 million homes and businesses pay a licence fee of £121 per year, generating an income of £2.8bn in 2003/04. The BBC's licence fee income funds its radio and online services as well as its television services.

Some people argue that the licence fee has had its day. They point to the fact that subscription funding may be possible in the future for at least some of the BBC services as more people take up digital television. Others are suggesting that it is time to move to paying for the BBC directly out of general taxation. And some argue that, even if there is a licence fee, it should be shared among a range of broadcasters who compete for it.

This chapter reviews these different options. Our conclusion is that licence fee funding remains the best way of paying for the BBC for the foreseeable future, and that the superficial attractions of competition for licence fee funding are heavily outweighed by its drawbacks. However, the licence fee must not stand still – it is time to modernise it in a number of ways. And self-help must be the first port of call for paying for the BBC's plans in the future.

## 7.1 The advantages of licence fee funding

The licence fee has many advantages as a way of paying for the BBC. That is because, in broadcasting, there is a direct connection between the source of funding and the nature of the broadcaster. As long as the British public wants the BBC to be an independent, universal broadcaster, committed to serving everyone on equal terms and to delivering quality and originality, the licence fee will remain a powerful and effective means of paying for its services.

It is the BBC's licence fee funding that enables it to focus solely on serving the British public. It gives the BBC the time, breathing space, freedom from commercial pressure and stability to take risks, raise its sights, and aim to serve the widest possible range of audience needs. Commercial broadcasters' first obligation is to their shareholders. As competition intensifies over the next decade, the divide between culture and commerce in broadcasting will widen.

Cultural, political and economic considerations all support the conclusion that licence fee funding is the best way of paying for the BBC.

First, the cultural considerations. As we argued in Chapter 1, the UK's culture, society and democracy benefit greatly from the universal availability of high-quality broadcast services which create public value. Licence fee funding confers on the BBC an obligation and responsibility to treat every person in the UK fairly and equally, ensuring they receive high-quality programmes they value, even if audiences are not always large. This direct connection between the BBC and the British public has conditioned the way the BBC behaves and the programmes it makes. Because rich and poor, old and young pay the same, the BBC treats all the same. In the words of Lord Puttnam, "*The licence fee remains the most effective and equitable form of funding that has ever been created for a public body.*"<sup>85</sup>

Second, politics. A conundrum in public service broadcasting is how to ensure that a publicly funded broadcaster can remain independent from political influence, given that 'he who pays the piper calls the tune'. Licence fee funding solves this conundrum. It ensures that it is the British people who pay for the BBC, not the Government. Though the Government sets the licence fee at regular intervals, the BBC's finances do not form part of its annual spending reviews or budget setting. The licence fee is therefore an important pillar of the BBC's independence.

Finally, the economics. Broadcasting has unusual economic characteristics, as described in Chapter 1. Like street lighting and public parks, it is a public good, meaning that the fact that one person consumes it does not prevent others from consuming it. Without intervention, public goods tend to be priced too high and to be undersupplied. As a result, some people who could have consumed the good at no additional cost go without. These welfare losses represent a market failure, in the sense of an inefficient allocation of society's overall resources. The effect is compounded by the tendency of private providers of public goods to become monopolists. Licence fee funding for the BBC recognises the public good characteristics of broadcasting and ensures a low price and universal availability.

There are other advantages. Because it is independent of the economic cycle, the licence fee enables the BBC to behave counter-cyclically, ensuring that investment in the UK's creative economy, training and technology is maintained even in times of downturn. It also supports the BBC in taking longer-term risks.

In the very long term, levying the licence fee on television sets may have to be reconsidered as people increasingly consume media across different devices. However, as long as television is a near-universal device, which we predict it will be for at least the next 15 years, it remains a valid basis on which to raise the licence fee. Some people pose a challenge to this system, but the numbers involved are tiny. We estimate no more than a few thousand people own a television but don't use any BBC services. The opposite problem arises in the case of the 2% of UK households who do not have televisions<sup>86</sup>, therefore pay no licence fee but may be using the

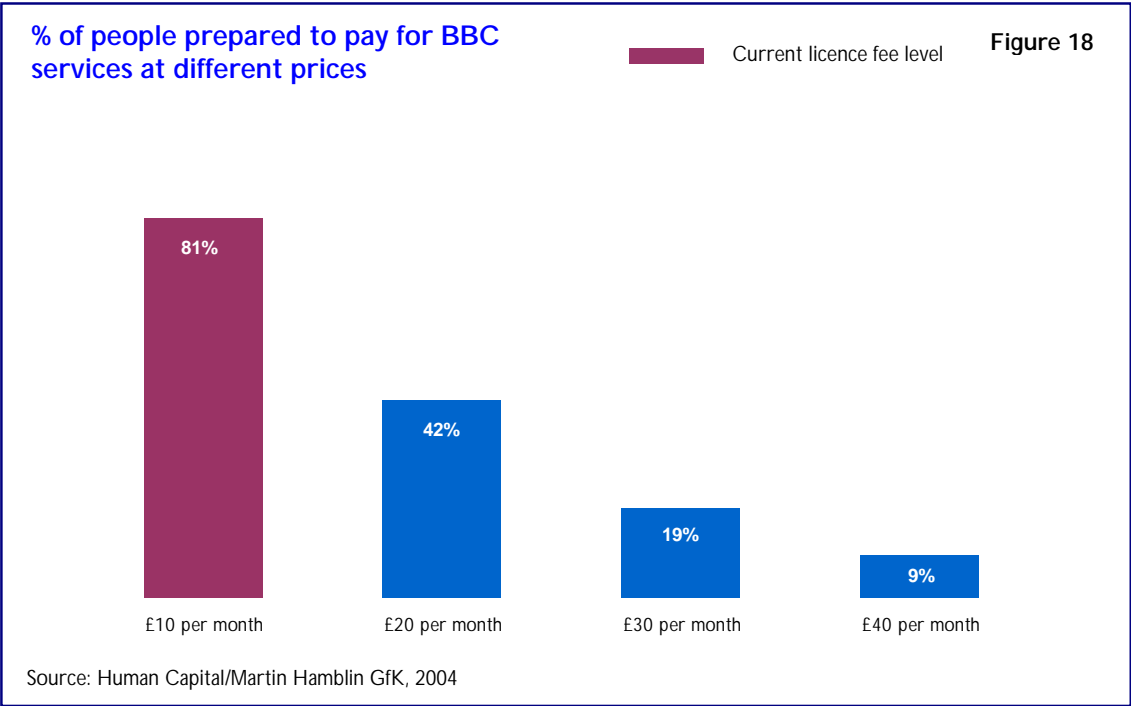
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<sup>85</sup> *Lords Hansard*, 2004

<sup>86</sup> BARB, 2003

BBC's radio and online services for free. However, the vast majority of homes are paying for BBC services they use.

Crucially, as highlighted in Chapter 1, research shows that the majority of people in the UK are willing to pay for the BBC at, or above, the current level of the licence fee<sup>87</sup>. When given the choice of paying a certain level of licence fee or having the BBC taken away from them, over 80% of people chose to pay the current level of £10 per month to keep the BBC. Six in ten people said that they would pay 50% more than the current licence fee and over 40% of people said they would pay £240 per year, double the current level (Figure 18). On average, people would pay £21 per month for the BBC. These results are an endorsement of the high level of commitment that people have to the BBC, and the value they derive from its services.



## 7.2 Is there a better way?

We have argued that licence fee funding has many advantages in paying for the BBC. Is there, however, a better way? In this section, we run through the pros and cons of the main alternatives: advertising, subscription and direct government grant.

**Advertising funding:** Advertising is a popular means of funding television worldwide. ITV, Channel 4, five, all of commercial radio and many online services are funded by advertising. If the BBC's services were switched from licence fee to advertising funding, we estimate that it could generate revenues of around £1.5bn to

<sup>87</sup> Human Capital/Martin Hamblin GfK, A study measuring the value of the BBC, 2004

£1.8bn<sup>88</sup>, compared with £2.8bn today. However, the outcome would be a dramatic fall in the overall quality and range of British television and radio, for two reasons.

First, the commercial broadcasting sector could lose 35%–45% of their advertising revenues. This is because the increase in supply of new commercial impacts from the BBC would reduce both the price other broadcasters could charge for advertising, and their share of the market. ITV, Channel 4 and commercial radio would have to cut their programme budgets in response. The outcome would be a substantial overall reduction in the investment, range and quality of UK-made programmes. For this reason, no commercial channel is in favour of the BBC taking advertising.

Second, the BBC would, over time, broadcast a less rich mix of programmes than now. Advertisers want high ratings, and the BBC would have to meet their needs. Most vulnerable would be high-cost, risky programmes that do not command large audiences – such as challenging documentaries, innovative drama and history, science and arts programmes.

A further consideration is that people value broadcasting without advertisements. UK consumption of television advertising is already rising, with the average UK household being exposed to nearly 20% more advertisements in 2003 than in 1996<sup>89</sup>. If the BBC were to take advertising, people in the UK would no longer have the choice of advertisement-free broadcasting.

**Subscription funding:** The arrival of digital television means that the BBC's television services could one day potentially be funded by subscription. Its channels could be made available only to people who paid for them. In this section, we look at two variants: first, the whole of the BBC becoming a subscription service, and second, just its entertainment services.

First, an entirely subscription funded BBC. Our research shows that, in order to maximise income, the BBC would need to charge a subscription price of £13 a month (£156 a year), 30% higher than the current licence fee. However, even at this level the BBC would only generate around 90% of its current income, and over one third of homes, or 20 million people, would choose not to subscribe to the BBC<sup>90</sup>. As a result, the BBC would become a service only available to those who could afford to pay. As we have noted in earlier chapters, this would lead to a loss of consumer welfare, because it would cost nothing to provide the BBC's services to the 20 million people excluded. Moreover, the remaining two-thirds of people who did subscribe would be paying more for a narrower range of services. The result would be a permanent loss of one of the main sources of the BBC's public value, its universality.

But what if the BBC's news and education services remained publicly funded, while its entertainment programmes became subscription services, as some people have

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<sup>88</sup> Using a price elasticity of 1.5–2.0 for television advertising to cover the range in recent studies including Stephen Davies and Peter Moffatt *The Elasticity of demand for TV advertising in the UK: a new estimate*, University of East Anglia working paper, 2004 (to be published); and, Oliver & Ohlbaum Associates, *An Assessment of the Market Impact of the BBC's Digital TV Services – A Report for the BBC's submission to the DCMS Review*, 2004

<sup>89</sup> ITC/Ofcom, BARB

<sup>90</sup> Human Capital/Martin Hamblin GfK, A study measuring the value of the BBC, 2004

suggested? To understand what this might mean, we can look at the example of HBO, the US subscription entertainment channel. HBO makes some of the best US comedies and dramas such as *Sex and the City* and *The Sopranos*. HBO charges \$10 a month for each subscriber on top of the price of a basic package of channels. This is about the same, for a single channel, as the element of the licence fee that is spent on the BBC's entire portfolio of eight television channels (about £7 per licence fee payer per month). Only 10% of US households choose to subscribe to HBO at this price. The BBC would have to adopt the same kind of pricing policy in the UK to stand any chance of commercial viability. As a result, the next *Absolutely Fabulous* or *The Office* would be seen by only one in ten viewers, and would cost a lot more than today for those who did subscribe – even though the costs of distributing to the other 90% would be minimal. We know from research that this outcome is not what viewers want – audiences regard popular, entertaining programmes as a key part of what UK public service broadcasters should offer.

Moreover, the HBO model would not be economically viable in the UK. We estimate that a UK version of HBO would be able to support a programme budget of only about £40m at best – which is less than 10% of BBC One's drama and comedy budget. It would be a threadbare channel, very light on the rich range of home-grown British content that UK audiences are used to. It would almost certainly fail. This analysis explains why no other country apart from the US has developed a successful HBO-type subscription model for high-quality original entertainment.

A further argument against turning the BBC's entertainment programmes into pay-services is that people would watch less education and news as a result. International evidence from public service broadcasters around the world shows that those with mixed schedules of news, education and entertainment – such as in the UK, Germany, Sweden and Italy – also have the highest viewing of news, factual, education, originated drama and children's programmes<sup>91</sup>.

Our conclusion is that, although digital technology makes subscription funding for some of the BBC's services theoretically possible, it makes it neither inevitable nor desirable.

**Direct government grant:** The BBC could be paid for out of general taxation instead of the licence fee. The advantages are that it would retain the principle of universal funding, reduce collection costs, eliminate evasion and be fairer, as payment would be related to household income. However, direct government funding would seriously weaken the BBC's independence from government, as well as the perception of its independence at home and around the world. By bringing the BBC into annual competition for funding with other public services, a level of political influence would be unavoidable. A further serious drawback would be the loss of a direct relationship between the BBC and its viewers and listeners.

On the basis of this analysis, our conclusion is that the licence fee remains the best way of paying for the BBC for the next decade.

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<sup>91</sup> Human Capital, *Public Service Television in a Changing World*, 2002 (unpublished)

### 7.3 Competitive bidding for licence fee funding

Some people argue that a range of broadcasters should compete for some of the licence fee. They propose that a portion of the licence fee should either be put into a separate fund for which all broadcasters could bid, or given straight to other broadcasters. This is sometimes known as top-slicing; Ofcom call it contestable funding. The rationale is that it would help to enable commercial broadcasters to fulfil their public service commitments; that it would encourage efficiency as a result of competition; and that it would extend the reach of public service output across a wider range of channels.

It clearly has some superficial attractions. At first sight, it can appear fairer, and could offer a simple solution to concerns about the BBC's scale. However, we believe that the outcome in practice would be damaging for British audiences, for six reasons.

- First, splitting the licence fee would break the direct connection between the BBC and the British public. Most people know that their licence fee pays for the BBC, and they have demands and expectations as a result. They feel they have a stake in the BBC. From the BBC's side, it knows that it has a single purpose – to serve every licence payer. Once that direct relationship is broken, so too is the contract between the BBC and the British public.
- Second, funding fragmentation would almost certainly lead to institutional fragmentation of the BBC and potentially of the other public service broadcasters. Although these institutions – and above all the BBC – must be properly governed and held to account, they and the heritage they represent are an important part of the reason why broadcasting in the UK has been so rich in quality and range. Institutional fragmentation would be a one-way process: once dismantled, the BBC could never be built again.
- Third, overall investment in original UK content would be likely to fall, rather than rise as intended. This is because the BBC acts as a standard setter for investment within the system – ITV, Channel 4 and five, as well as new digital channels, have to invest in high-quality content to win audiences, though without competing with the BBC for revenues. Modelling of the UK system by an independent economist shows that, for every £1m taken away from the BBC and given to another UK broadcaster, total investment in UK content could decline by up to £500k<sup>92</sup> as other broadcasters took the opportunity to cut programme investment in response. The result would be falling programme investment and standards for the same level of licence fee.
- Fourth, public funding would be spread more thinly across the system, leading to a progressive reduction in programme quality and range, and in the BBC's case, to a likely reduction of services. The interplay between the BBC's different services could not be replicated in a fragmented system – it is one of its greatest sources of public value.

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<sup>92</sup> Oliver & Ohlbaum Associates, *UK Television Content in the Digital Age*, 2003

- Fifth, creating a new intermediate funding body would add bureaucratic complexity and would itself require the full apparatus of civic accountability. The BBC believes that creative decisions about public service broadcasting are best made by working broadcasters within the BBC, Channel 4 and the other PSBs, who are in day-to-day touch both with audiences and the creative community.
- And finally, some licence fee value would be transferred from audiences to shareholders. This is because commercial broadcasters have a single overriding obligation, and that is to maximise profits. For them, public funding would be regarded as 'soft money', to be returned to shareholders wherever possible. For example, they could make and schedule publicly funded programmes as agreed, but then reduce investment in similar programmes already planned. Or they could require compensation out of public money for advertising revenues foregone. There is a precedent. Section 48 of the 1997 Finance Act was designed to enable independent film producers to bid for funds to support the UK film industry. However, a loophole enabled broadcasters to use the money to support a wide variety of television programmes. In 2001 87% of all awards under the scheme were for television productions, including soaps, drama and children's shows. Many programmes which benefited would have been made without extra funds – they included *Coronation Street* and *The Bill*. As a result, the value to the British film industry was far less than intended and the loophole was closed in the 2004 Budget.

Lessons from abroad are useful here. Where similar systems have been introduced, for example, in New Zealand, Canada and Singapore, it has been to address particular problems in their broadcasting markets: poor economies of scale; the inability to stimulate indigenous production; and the risk of schedules being dominated by content from larger neighbours with a similar language and culture. These problems do not apply in the UK. But even in those markets, success has been patchy. Last year, New Zealand announced the reinstatement of ring-fenced public money for its main public service broadcaster, TVNZ, following concerns over the fragmentation and low impact of public service broadcasting as a result of a top-slicing system introduced in the 1990s.

We understand the arguments in favour of plurality in public service programming, and strongly support the ongoing contribution of ITV, Channel 4 and five as investors in high-quality British programming across a wide range of genres. Securing the long-term financial stability of the other PSBs must be a priority both for government and Ofcom, and the BBC is more than willing to play its part in finding solutions. It is prepared, for example, to work with government to find ways in which it can ease the financial burden on the other PSBs of the transition from analogue to digital terrestrial television. It will actively explore partnerships and collaborations which will enable Channel 4 and the other commercially funded PSBs to continue to offer outstanding public service content in a sustainable way.

## 7.4 Transforming the licence fee

Though we strongly support licence fee funding as the best means of paying for the BBC, we believe that there is scope for substantial modernisation. We intend to make

the licence fee easier to pay and cheaper to collect, and would like to explore with Government options for reducing the burden on the courts.

The BBC has made good progress in reducing the combined cost of collection and evasion of the licence fee. Since it took over collection of the licence fee in 1992, the combined cost has been reduced from 18.8% to 11.3% in 2003/04 – an achievement praised in 2002 by the National Audit Office (NAO)<sup>93</sup>. But more can be done. Our proposals, subject to appropriate Government consents, are to:

- Increase the number of people paying the licence fee by direct debit from 55% today to around 80–90%; this would make the biggest single contribution to savings in collection costs
- Migrate to paperless licensing with at least half of all households paying, renewing and updating their details online
- Develop the first UK database with address and contact details for every household, making it easier to identify suspected evaders
- Remove the requirement for people over 75 to renew their free licences annually

These changes could reduce collection costs from 5.7% of licence fee income today to around 3.5% by 2010, saving £50m per year.

Though the licence fee has many advantages as a way of funding the BBC, it has one main drawback, and that is the hardship it can create for the least affluent members of our society. We would like to work with Government, which is ultimately responsible for the licence fee, to explore options for making the licence fee more affordable for some groups.

## 7.5 Paying for the BBC from self-help

The BBC has a responsibility to keep the financial burden on all licence payers as low as possible by making its income go as far as possible. That is why every discussion about the future level of the licence fee should begin with the question of self-help. In fact, the BBC has funded a large part of its digital investment over the past decade by achieving efficiency savings across all its operations. Improved commercial cash flows from BBC Worldwide have also played a significant part.

Throughout the 1990s there was a major efficiency drive with a particular focus on production savings. During this period, annual cost reductions averaged over 4% of expenditure. As part of the last licence fee settlement in 2000, the BBC made a voluntary commitment to generate additional cash of £600m per annum by 2006/07, and a cumulative total of £2.8bn from 2000/01 to 2006/07. This was stretched further by Chris Smith, then Secretary of State, who challenged the BBC to raise an extra £490m in cash by 2006/07. This additional commitment took the BBC's overall self-help target to £3.29bn by 2006/07, as follows:

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<sup>93</sup> NAO, *Collecting the TV Licence*, 2002

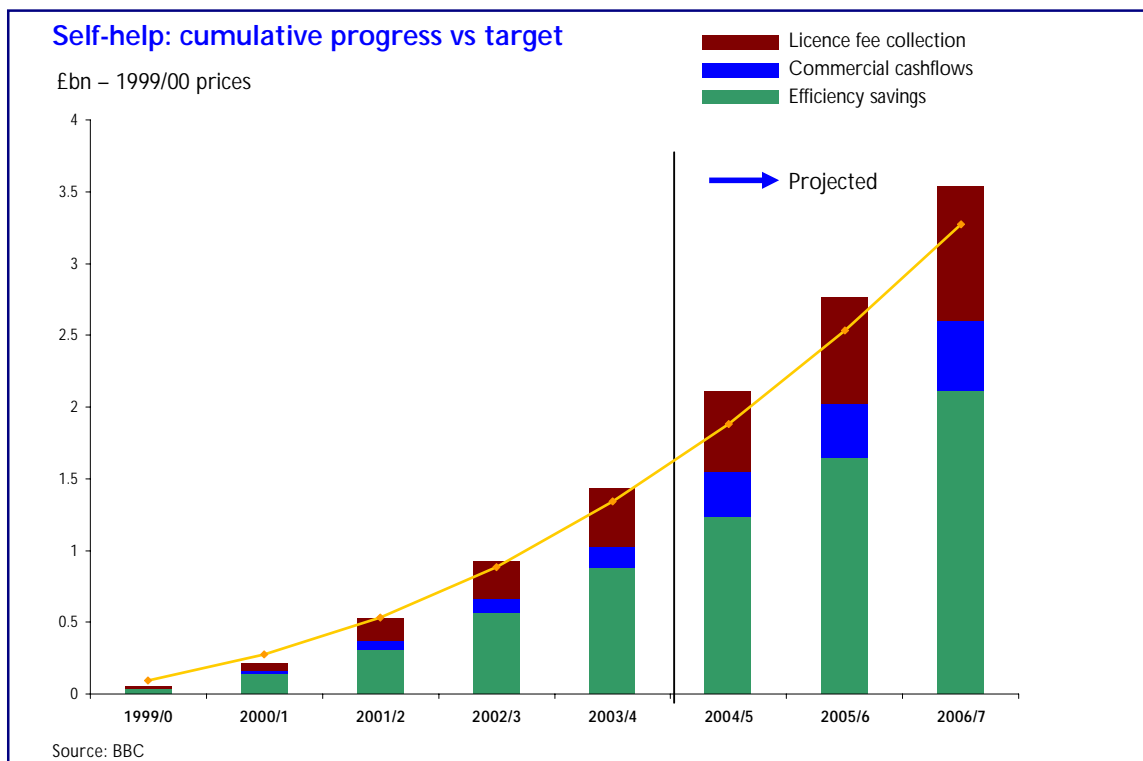


Cumulative self-help, 2000/01–2006/07 (99/00 price levels)	
Activity	£m
Improving the BBC's efficiency	1,990
Licence fee self-help	750
Building commercial revenues	550
<b>Total</b>	<b>3,290</b>

This settlement, supplemented by an above-inflation increase in the licence fee worth just under £1bn, was granted in recognition of the role that the BBC could play in the emerging digital world. This money has been reinvested in the priority areas that were identified at the time as part of the licence fee review in 2000: strengthening BBC One; enhanced interactivity and digital services; online education for children and adults; and improved services for the nations and regions of the UK (see Chapter 5 for details).

Since 2000, in line with the challenges laid down in the last licence fee settlement, the BBC has focused on cutting overheads and non-programme costs to reinvest these savings in content. Between 1999/2000 and 2003/04 overheads were reduced from 24% to 12% of expenditure (see box below). These savings have been challenging to realise, especially as the whole broadcasting industry has been facing substantial pressures from the rapidly rising costs of rights, staff and talent.

Figure 19 shows that, in aggregate, the BBC has exceeded its self-help targets up to the end of 2003/04 and we remain on track to exceed the cumulative target of £3.29bn by 2006/07.



Savings achieved to date have included a 40% reduction in finance headcount, a 30% reduction in the staffing of the BBC's human resources function, and headcount savings of several hundred in other areas such as Factual & Learning and News.

While cost-saving initiatives have continued since 2000, the main focus since then has been on the development of the BBC's digital services and on increased effectiveness of existing investment and expenditure. Now this transition is largely complete, we plan to renew our focus on driving further efficiencies in production through the use of digital technology.

### **Cutting the BBC's overheads**

The reduction in the BBC's overheads has been achieved by introducing flatter management structures and implementing a range of cost-saving initiatives. Examples include:

- Cutting out and cutting back discretionary overheads has saved £19m per annum
- The introduction of a single finance computer system is generating additional annual savings of £17m
- Improved procurement is saving £33m per annum
- Savings are being delivered through the BBC's property strategy – the partnership with Land Securities Trillium (LST) is forecast to reduce the BBC's property running costs, as well as providing attractive new spaces for talent
- Human resources savings of £17m per annum have been made through reducing headcount by setting up shared operations across divisions
- Technology savings of £25m per annum have been achieved by more effective procurement of supply contracts and by rationalising and integrating operations
- Other cost-saving initiatives covering technology integration, playout modernisation and divisional restructuring have delivered annual savings in excess of £58m

Going forward, the BBC intends to set itself further testing targets for self-help through efficiency and more effective maximisation of the value of its investment in content. It will:

- make value for money a key criterion for investment and funding decisions at every level of the organisation, from the Board of Governors down;
- seek substantial reductions in programme production costs through advances in broadcast and information technology and multiskilling, with the aim of building an integrated system of digital content production that is indisputably world class;
- reduce overheads further from 12% to 10% of expenditure by early in the next Charter period through further procurement improvements, system enhancements and supplier partnerships;

- examine the potential for savings by moving some administrative and other operations out of London;
- continue to drive savings in licence fee collection, with a programme of action and targets as set out above.

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In this chapter, we have looked at licence fee funding alongside the main alternatives, and concluded that it remains the best way to fund the BBC, though strongly supplemented with internal self-help by the BBC itself. In Part II of our paper, we turn to the BBC's constitution and the way it is governed.

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## PART II: Governing the BBC

The BBC has a unique constitution. Based on a Royal Charter and with an independent Board of Governors at its heart, it is designed to ensure that the BBC is driven only by serving the public interest. Its role in the BBC's success for 80 years has been vital. However, the changing environment for corporate governance now requires higher levels of scrutiny and accountability. Clear and bold reforms are needed.

In Part II of our paper, we turn to one of the most crucial issues of this Charter Review process – the BBC's constitution and how it is governed. This section is, appropriately, the work only of the BBC's Board of Governors, and not of the BBC's management.

The BBC was established in 1927 with a constitution based on a Royal Charter and an independent Board of Governors, as recommended by the Crawford Committee. This constitution was expressly designed to guarantee the BBC's independence and enable it to focus only on the public interest. It has enabled the BBC to develop throughout its history as a trusted public service broadcaster, capable of transforming itself in response to revolutions in radio, television and, more recently, digital technology.

Over the years, the BBC's constitution has evolved on many occasions in response to the changing environment. For example, in 1972, the Board of Governors began to meet independently of management. In 1997, its precise functions and duties were set out in the Charter for the first time.

Now further changes are necessary. Evolving technology, audience expectations and the commercial market, together with the creation last year of Ofcom as a new regulator for the whole communications industry, must all be important considerations. So too must be the findings of the recent Hutton Inquiry. The review of the BBC's Charter provides the right context for a wide-ranging debate about the best way forward. We welcome this debate and want to engage fully in considering possible reforms, both radical and evolutionary. This chapter sets out the contribution of the BBC's current Board of Governors to this important debate.

We begin by identifying the strengths and weaknesses of the current system. We conclude that, although there is a pressing need for reform, the concept of an independent Board of Governors as trustee of the public interest retains important advantages: safeguarding the BBC's independence, exercising effective stewardship of public money in the public interest, and preserving of plurality in UK content regulation. The Board of Governors stands for a BBC that is a public, and not a state, broadcaster.

We go on to propose a set of bold reforms of the current system designed to deliver clear and indisputable independence of the Board of Governors from management, a new framework of rigorous and transparent scrutiny rooted in public value, and a

properly resourced plan for demonstrating greater accountability to the British public. Many of these changes can and will be implemented immediately.

Our view is that these reforms will lead to a strengthened and empowered Board of Governors capable of preserving the advantages of the current system while dealing decisively with its weaknesses. As a constitution for serving the needs of the British public in the future, we believe it will be better than alternatives that remove the Board of Governors as trustee of the public interest.

## 8.1 The BBC's current constitution

The BBC's current constitution has important strengths across all three of its primary functions: effective governance, meaningful accountability to the British public and fair regulation and compliance.

**Effective governance** is about ensuring that the BBC properly fulfils its public service remit. Are its programmes good enough? Do they deliver sufficient public value? Is the BBC acting impartially? In these areas, it is crucial that the BBC can act only in the public interest, independent of commercial and political interests.

Under the BBC's current constitution, this independence is secured through a Board of Governors which acts as trustee of the public interest. The Board is made up of 12 independent-minded people with a wide variety of skills and expertise, able to act without fear or favour. The BBC's management is fully accountable to the Board of Governors for all aspects of the BBC's strategic direction and for the successful implementation of strategies once they have been approved. Governors can call on specialist expertise in a range of business and public service disciplines to support and, when necessary, challenge management. The Board of Governors is constitutionally part of the BBC, but independent of management. Each governor is recommended for appointment by the Secretary of State for Culture, Media and Sport under Nolan principles.

The purpose of the Board of Governors is to ensure that the BBC is single-minded in its approach to serving the public. In 2000, the Board approved the long-term strategic and financial plan for the BBC to carry the Corporation through to the end of its current Charter. Since then, it has overseen changes to strategies for eight services and genres: BBC Two, Radio 1, [bbc.co.uk](http://bbc.co.uk), news, global news, the arts, religion, and political programmes.

The Governors themselves are held accountable for their actions through a range of checks and balances – including appearing before the House of Commons Select Committee for Culture, Media and Sport; the requirement that the Secretary of State approve all new BBC services; and, of course, the periodic root and branch review of the BBC's Charter. Furthermore, following a requirement set out in the new Agreement which accompanied the 2003 Communications Act, the National Audit Office has begun a series of 'value for money audits' of BBC activities for the Governors' Audit Committee. These audits are aimed at assessing the BBC's effectiveness and efficiency in a range of areas. They will first be presented to the Board of Governors, then subsequently published and laid before Parliament.

**Accountability to the British public** is about ensuring that the BBC is responsive and accountable to the people who pay for it. It is through consultation and discussion with audiences that the BBC can understand and respond to their concerns and needs. Currently, the BBC has one of the widest networks for public consultation of any broadcaster in the world. Over 500 people from across the UK regularly contribute their views on the BBC as part of a network of advice, including the Broadcasting Councils for Scotland, Wales and Northern Ireland, and the Regional Advisory Councils for England (see box below).

### **The BBC's network for public accountability**

The Board of Governors draws on the support of a broad network of external advisory bodies to provide advice on the BBC's services for different parts of the UK.

**The Broadcasting Councils for Scotland, Wales and Northern Ireland** each have 12 members, chaired by the relevant BBC national Governor, and meet monthly. Places on the Councils are advertised and members selected by an appointments committee including independent external advisers. The principal role of the Councils, set out in the Charter, is to advise the Board of Governors on what audiences in the nations think of BBC programmes and services, and how best the BBC can serve their interests. The Councils hold regular public meetings to gather the views of audiences and the Board consults them on proposals affecting the nations and on objectives to be set for the BBC.

**The Regional Advisory Councils (RACs)** represent each of the regional television areas in England. Each RAC has around 12 members, representing a cross-section of the viewing and listening public across the region. They provide advice via the English National Forum (ENF) on BBC programmes and services in their regions. In particular, they are asked by the Governors to assess how well the BBC reflects the regional and cultural diversity of England. The ENF is made up of the chairs of each RAC, and is itself chaired by the BBC's Governor for England.

**The Local Advisory Councils (LACs)** represent the areas covered by each of the BBC's local radio stations in England. Members are selected from the audience for each station, and the chair of each LAC sits on the relevant RAC, so providing a link through to the Board of Governors. The LACs offer advice and feedback on the quality and range of programmes and services in their areas, review the BBC's performance and objectives, share their views directly with the local radio station editor, and take part in public events which allow them to keep in touch with the views of the wider audience.

**The Central Religious Advisory Committee (CRAC)** has 16 members representing different faith communities in the UK, and provides advice both to the BBC's Governors and to Ofcom, who jointly appoint the members. The Board of Governors routinely seeks CRAC's views on the BBC's performance in delivering its commitments on religious programmes.

Each of the national, regional and local councils makes a significant ongoing contribution towards ensuring that the views of audiences throughout the UK are reflected in the BBC's objectives, and that the BBC is accountable to those audiences for its performance. Their role is particularly important in reflecting the devolved nature of the UK. In total, members freely contribute some 4,000 days of their time each year to representing the public interest.

This network is directly involved in shaping the development of BBC services. Recent examples include the launch of BBC 2W, a tailored version of BBC Two for Wales developed in response to proposals by the Broadcasting Council for Wales; changes

to BBC's Scotland's news and current affairs strategy, drawing heavily on the contribution of the Broadcasting Council for Scotland; a new business programme in Northern Ireland, *Business Day*, was broadcast after the Broadcasting Council for Northern Ireland identified weaknesses; and changes to local news coverage in the English regions, which came out of recommendations by the Regional Advisory Councils (RACs) and Local Advisory Councils (LACs).

**Fair regulation and compliance** is concerned with ensuring that the BBC abides by the laws and rules of the land – such as competition law, production quotas that apply to other broadcasters and legal standards of taste and decency. It is very different from governance, which is concerned with how money is allocated to deliver goals that are often complex, long-term and, in the case of public organisations, involve judgements about public interest and public value.

A surprise to some is that much of the regulation of the BBC already lies outside the BBC. For example, all the BBC's activities are governed by competition law and policed by the UK competition authorities and the European Commission. In addition, Ofcom regulates the BBC on issues of taste and decency, privacy, fairness and other programme standards. It can consider complaints from members of the public about BBC programme standards, and monitors the BBC's adherence to around 60 individual targets and quotas each year – including levels of independent and regional production and volumes of news, current affairs and original programmes on BBC channels.

In some aspects of BBC regulation, such as audit and fair trading, where the BBC is subject to more stringent requirements than other bodies, the Charter confers responsibility for overseeing these on the Board of Governors. One area where the Board of Governors has primary regulatory responsibility is for accuracy and impartiality. This is entirely appropriate, as the BBC's independence is crucial in this area.

In areas where the Governors have regulatory responsibility, they obtain external advice to ensure compliance. For example, the Governors' Programme Complaints Committee, which acts as a 'court of appeal' on complaints from audiences, draws on the expertise of an external editorial adviser who attends all their meetings and advises them both on the handling of individual appeals and on general strategic issues. The Audit Committee is supported by independent external auditors whose appointment is approved by the Secretary of State. The system has worked well. No complaint of unfair trading practices has been upheld against the BBC in the last ten years and the BBC's fair trading systems have been independently verified by a government-appointed reviewer. The Board of Governors reviews its processes for regulation and compliance each year, using specialist outside advice.

We hope this clarity in defining the differences between governance, accountability and regulation will help in the forthcoming debate. It is particularly important to recognise that the Board of Governors is not simply one of the BBC's regulators. It is the trustee of the public interest, responsible for strong and effective governance.

## 8.2 The need for change

The world is changing fast and the BBC's constitution needs to adapt with it. Three changes are particularly relevant to any future constitutional reform.

The first is the explosion of commercial media services over the past ten years, which will accelerate in the next decade. As a consequence, the BBC will need to be clearer than ever before about the public value of what it does and about its impact on the rest of the media industry. Second, people are demanding ever-higher standards of openness and accountability from their public services – whether the NHS, their local school or BBC One. The BBC's standards of responsiveness and accountability must be exemplary. Third, best practice in good governance has evolved in recent years, highlighting the importance of clear roles, transparency of performance criteria, and effective and well-publicised scrutiny, particularly of public organisations.

We have looked hard at the BBC's constitution in the light of these changes, and see five main areas for improvement.

- The Board of Governors needs to be able to act more independently of management. Currently, the two bodies draw on the same sources of skills and expertise, with the exception of a small group of people within the BBC who work uniquely for the Governors. The perception created is that Governors can become captives of management.
- The outside world needs to be able to understand better what kind of scrutiny the Governors are applying to the BBC's past performance and its future strategy, and the criteria that are being used. The processes by which the Governors make their strategic input in the public interest are not easily visible, and the BBC's Annual Report does not currently offer sufficient insight and clarity. It has sometimes appeared to emphasise marketing the BBC's successes over accounting for its performance.
- The BBC's complaints procedures need to be strengthened. How an organisation responds when someone complains is an important determinant of how people feel about its openness and responsiveness. It is still too difficult to find out how to complain about the BBC, and complainants can feel that they have not been listened to properly.
- As trustees of the public interest, the Governors have more to do to raise their own level of engagement with audiences. In particular, they have yet to tap the huge opportunities brought by the internet and digital television to involve the public more closely in shaping the BBC of the future.
- The role and function of the Board of Governors needs to be more clearly explained and communicated.

We believe the answer to these concerns is to reform the BBC's current constitution, rather than to tear it up and risk losing many of the strengths that have underpinned



the BBC's success over so many years. We have therefore developed a range of proposals intended to strengthen fundamentally the BBC's current system of governance and accountability. They fall into three areas: establishing clear and indisputable independence of the Board of Governors from management; a new framework of rigorous and transparent scrutiny rooted in public value; and increased accountability and responsiveness to the British people.

### 8.3 Clear independence of BBC Governors from management

The Governors in future will act – and be seen to act – fully independently of the BBC's management and will be resourced properly in order to make informed and independent judgements.

- **The Board of Governors will be supported by a dedicated and strengthened Governance Unit, independent of management.**
  - The Head of the Governance Unit, appointed by the Board and reporting directly to the Chairman, will be a senior figure of weight and authority, with the skills and experience to provide reliable and independent support to the Board of Governors.
  - The Governance Unit will contain staff providing a range of expertise and experience – covering broadcasting industry knowledge, journalistic capability, economics and legal advice. This will enable the Unit to advise Governors on the conduct of their duties and to scrutinise proposals coming from management.
  - The Governance Unit's staff will report solely to the Chairman and Governors, underpinning the independence of their advice. This is a major change from today, where the staff dedicated to serving the Board have reporting lines both to the Director-General and to the Chairman.
  - All issues concerning the pay, conditions and career progression of staff while they are within the Governance Unit will rest entirely with the Board.
- **To support its performance reviews and well in advance of any new service launch, the Governors will in future commission and publish external research, advice and assessments.**
  - The Governors will make greater and more systematic use of independent external advisers, while retaining free and ready access to internal BBC sources of information.
  - They will routinely use external advice and analysis to supplement information from senior managers within the BBC. For example, the Governors could commission reports on the effectiveness of the BBC's internal compliance systems – as the Government did when it asked Professor Richard Whish to review the BBC's fair trading systems – or into service areas, along the lines of Philip Graf's recent review of the BBC's online services for the DCMS.

- **Though the choice of BBC Governors is for the DCMS and not for the BBC, our view is that the Board of Governors should continue to be comprised of people with a wide range of different experiences and skills, supported with specialist broadcasting knowledge from the Governance Unit.** The broad range of skills and expertise brought by Governors with strong records of achievements outside broadcasting is a strength of the current system and worth retaining – though in the context of strengthened input in specialist broadcasting areas from the new Governance Unit. Their contribution to the effective running of the Governors’ Audit, Fair Trading and Property Committees is particularly valuable. Given the challenges of the modern news era, we would recommend that at least one member of the Board has a strong editorial background, preferably in journalism.
- **The Board of Governors and the Governance Unit will be located apart from senior management,** to underpin their different roles and independence from management.

As a result of these changes, we believe the Board of Governors will be better equipped to act – and be seen to act – independently of management. At the same time it will remain sufficiently involved in the complex challenges and opportunities facing the organisation to be able to act proactively and decisively in the public interest.

#### **8.4 A new framework of rigorous and transparent scrutiny**

The BBC is owned by the British public. The Board of Governors’ overriding objective must be to ensure that the BBC acts solely in their interests and that it pursues the public goals set for it with energy and effectiveness. In future, the Governors will put public value at the centre of a new framework for scrutinising the BBC’s activities, with a stronger and more systematic link to the views of the public.

- **Every BBC channel and service will be given a Service Licence by the Board of Governors that sets out the budget, remit and performance targets that the Governors expect to be met.**
  - The Service Licences, which will be published, will be based on a mix of measurable and judgemental factors that Governors believe drive the public value of the service, based on the public value measurement framework set out in Chapter 4.
  - The Statements of Programme Policy will set out the annual commitments of each service within the framework of its Service Licence.
  - If a service wishes to deviate from its Service Licence, it will need approval from the Board of Governors.

- **The Board of Governors will lead a cycle of transparent independent reviews of the performance of BBC services and other activities.**
  - All BBC services will be comprehensively reviewed on a rolling basis using the public value framework outlined in Chapter 4. We would expect all services to be reviewed within a given five year period.
  - Each review will be informed by in-depth audience research and consultation and take account of public value and market impact.
  - Additional reviews will be held of issues raised by audiences, based on a programme of consultation and listening run by Governors to identify issues of most concern to audiences. These reviews may be service-based or on other topics, such as impartiality or how well the BBC is serving particular sections of society. This research will be published.
  - If the Governors choose not to act on audience views expressed during these consultations, they will explain clearly the reasons for that choice.
  - A senior external figure will be appointed to lead each major review on behalf of the Governors, supported by the Governance Unit.
  - Each year's Annual Report will report on the review cycle, the key findings of each review, and the impact of action taken in response to previous reviews.
  - Our recommendation is that the independent nature of these reviews should enable them to stand in place of external reviews of the BBC's services.
  
- **The Governors will apply a public value test to all new service proposals and to major changes to existing services.**
  - The Governors will apply the public value test described in Chapter 4 to any new BBC service.
  - The Board of Governors will require a clear demonstration that any proposal passes this test. It will commission external advice and research to inform this process, including an economic assessment of the market impact of any new service. No service that fails the public value test will be launched.
  - The results of the public value test will be published.
  
- **The BBC's Annual Report will in future be owned solely by the Board of Governors, enabling it to give its own assessment of the management's performance over the past year.**
  - The Annual Report will explicitly be the Governors' report. While it might contain information from BBC management, the document will be owned by the Governors and will primarily be concerned with assessing performance and holding management to account.

- This year's Annual Report will represent a step-change in this respect. It will continue to evolve in the light of experience, to ensure that it properly underpins the Governors' independence from management.

## 8.5 Increased accountability and responsiveness

The Board of Governors will put effective engagement with the British public and responsiveness to their concerns at the heart of its role as trustee of the public interest. In particular:

- **BBC Governors will launch a range of initiatives to engage the British public more directly in shaping the BBC of the future.**
  - One of the biggest steps forward will be the proposal (described in 8.4 above) to base the Governors' new programme of reviews of BBC services on those issues that audiences most care about. For the first time, there will be a systematic link between the Governors' scrutiny, past and future, and audiences' needs and concerns. These links will be expressed clearly in all reports and publications by the Board of Governors.
  - In addition, every three to five years the Governors will commission a regular, independent Public Value Review of the BBC, based on a large-scale survey of 10,000 people. The Governors will take professional advice on how to structure the review to get as full an assessment as possible of the public's views of the BBC.
  - The BBC will offer new opportunities for people to use the internet and digital technologies to contribute their views on a wide range of topics directly to the BBC's Board of Governors. Building on the recent *Viewpoint* pilot, people will be invited to feed back on individual programmes and services.
  - The BBC will make it easier for people to contact the Board of Governors, through the introduction of online 'surgeries' where people can engage directly with Governors, particularly around the topics selected for review each year.
- **The BBC's network of Broadcasting, Regional and Local Advisory Councils will be strengthened and used more effectively to help influence the BBC of the future.** All Broadcasting Councils and the English National Forum will continue to be chaired by the relevant national Governor. In future, they will also be supported by a secretariat and be able to commission research and access advice from the resources available to the Governors. A wider programme of open meetings between the public and the Councils will be introduced, supported by improved online and on-air promotion. The Governors will meet regularly with the Broadcasting Councils and will have a specific duty to consult them as part of their annual cycle of reviews, giving the Councils a direct role in monitoring the performance of the BBC's UK-wide services as well as local and regional output. We also recommend that the English National Forum should be granted the same constitutional status as the Broadcasting Councils for Scotland, Wales and Northern Ireland.

- **The BBC will shortly introduce a new system for dealing with complaints from licence payers, to ensure objectivity, fairness and transparency.** The BBC will begin with the presumption that the licence payer is right. A new Head of Complaints will report directly to the Board of Governors. We will make it much easier to make complaints about BBC programmes and services and will publicise the procedures more widely on TV, radio and online. We will publish all errors, clarifications and corrections promptly on the BBC's website. We will also set out for complainants – and for serious upheld complaints, for the public at large – the actions the BBC will take to correct the error and minimise the risk of it recurring. We considered carefully the case for establishing an independent ombudsman to handle complaints, as some newspapers have done. However, we concluded that this role would duplicate that of the Board of Governors, which itself represents the public interest. Our proposals will shortly be laid out within a new Code of Practice and implemented as soon as possible. The BBC will be a stronger organisation for recognising where it is wrong and taking clear steps to put things right.

## 8.6 Alternatives to the Board of Governors

Some believe that the Board of Governors is no longer the right model for the BBC and that it should be replaced with a new constitutional model. Two options are most often raised as potential alternatives: governance and regulation of the BBC by Ofcom; and creating a new external regulator for the BBC 'outside the walls'.

We have given careful consideration to these alternative models, starting with a perspective on what they need to achieve. In our view, any successful governance system of the BBC must satisfy at least four tests. It must:

- Guarantee the BBC's independence from commercial and political interests;
- Ensure that public money is spent in line with the public interest to maximise public value;
- Ensure that BBC services and any proposed changes to them are subject to proper scrutiny on behalf of the British people;
- Secure sufficient plurality and range of voice within the overall regulatory environment for UK broadcasting.

Turning first to the option of placing regulation and governance of the BBC under Ofcom, there are clearly superficial advantages. It would create a single regulatory body for the whole communications industry, bringing efficiency and eliminating a degree of complexity and duplication. However, applying the four tests highlights a number of significant drawbacks.

First, Ofcom is an economic regulator first and foremost. It is not suited to the governance of a public service organisation with cultural and democratic purposes

and would therefore find it difficult to replicate the role that the Board of Governors plays in ensuring that money is spent in line with these purposes. Its power is necessarily more retrospective.

Second, though Ofcom could scrutinise the BBC's services and any proposed changes, its accountability to the British people would not be clear, as it has a wide set of conflicting obligations, including to the commercial media sector from which it would face intense pressure to limit the BBC's role.

Finally, there would be a loss of plurality in the UK broadcasting system. Under this proposal, all regulation of content and service development for the British broadcasting industry would rest with one regulator. Its power would be unprecedented in UK media history. Ofcom's views on the needs, values and tastes of the British people would be the only ones that counted. In many respects, plurality in broadcast regulation is as important as plurality in broadcast content.

Could these concerns be mitigated if a separate regulator for the BBC were to be set up, instead of the Board of Governors, outside the BBC? Some have raised the idea of a separate PSB regulator, responsible also for Channel 4.

In terms of the BBC's independence, we believe risks would remain under this option. External regulators in the UK are government bodies, and part of a wider hierarchy of government institutions. They lack the constitutional independence of the BBC's Governors. Moreover, the new external regulator would not have control over the budget and spending priorities of the BBC, as the Board of Governors does now, so would not be able to act as stewards of public money. It could punish retrospectively, but that is a very different role – a role of regulation and not of governance. As a consequence of the full separation, physical and constitutional, of the new body from the BBC, it would find it difficult to change the BBC's organisation and its services for the better. Patricia Hodgson, the former Chief Executive of the Independent Television Commission, has made this point powerfully on several occasions, arguing that regulators have only limited power to change organisations for the good.

In comparison, we believe that the BBC's Board of Governors, once reformed in the ways described in this chapter, can meet these goals effectively and transparently. It is able to guarantee the BBC's independence, as evident from 80 years of success in the face of at times relentless pressure. It is steward of the BBC's public money, and close enough to the organisation to ensure it is spent in line with public priorities. As a result of the changes proposed above, we believe the Governors will be able to undertake effective and independent scrutiny of the BBC's services on behalf of the British people. And, finally, the separate constitution of the BBC preserves the vital principle of plurality of regulation in British broadcasting.

## 8.7 The BBC's Royal Charter

The BBC has operated on the basis of a Royal Charter since 1927. It has stood the test of time remarkably well. However, we recognise that the concept of a Royal Charter can seem old-fashioned for a modern media organisation. The BBC would welcome a broad public debate on whether other models might be better. For example, further consideration could be given to models such as mutualisation, trust status or establishing the BBC as a public interest company.

Any other model chosen would have to be at least as effective as the current Charter model in underpinning the BBC's independence and public role. For example, it would need to be able to guarantee the BBC's independence by establishing it for a set period (the BBC cannot be abolished under the Royal Charter). It would need to provide for regular parliamentary scrutiny of the BBC's role. It would need to provide sufficient flexibility for the BBC to develop its services in the public interest, in the face of external changes. And it would need to provide the necessary checks and balances to ensure that proposed changes to BBC services are subject to proper scrutiny. The BBC looks forward to engaging with this debate.

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In this final chapter, we have outlined a bold set of plans for reforming the BBC's constitution, and, most particularly, for strengthening scrutiny and accountability. We recommend that an independent Board of Governors remains at the heart of this constitution, acting solely as trustee of the public interest and guardian of the BBC's independence.

As a result of these reforms, the Board of Governors will become a stronger body, with independent expertise, greater transparency, and a rigorous framework for holding the BBC's management to account. Its role will be to ensure that the BBC fulfils with imagination, flair and ambition its goal of building public value for the British people over the coming decade.

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# Conclusion

The public can look forward to the digital future as a time of unrivalled consumer choice. New devices and communication channels will compete to deliver the right audio-visual product to the right customer whenever and wherever he or she wants it. This is good for individual consumers and good for the UK as an economy and as a society. The BBC will play its part in building the infrastructure and content on which this new digital world will be founded.

But the BBC believes that broadcasting will always be about more than the purely private. The new technology will open up not just individual consumer pathways but new civic avenues and town squares, public places where we can come together to share our experiences and learn from each other, places where we can celebrate, debate and reflect.

In our paper, *Building public value*, we have tried to show how an independently and effectively governed BBC, focused on its vision and its values yet open – to new ideas, to justified criticism, above all to the views and priorities of its audiences – could play a decisive role in establishing public value in this new digital world. But, while the BBC has a duty to contribute its ideas to the debate, it also knows that the question of its future is not one that it itself can or should decide. That decision rests firmly with its owners, the British public.

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If you have any views or comments on what we have said in our document, *Building public value*, or on the BBC's future more generally, you can contact us by email at [futureofthebbc@bbc.co.uk](mailto:futureofthebbc@bbc.co.uk) or write to Future of the BBC, PO Box 125, Glasgow G2 3WD. We will publish a selection of comments on the BBC website at [www.bbc.co.uk/thefuture](http://www.bbc.co.uk/thefuture).

This document (and others relating to Charter Review) can be found online at [www.bbc.co.uk/thefuture](http://www.bbc.co.uk/thefuture). If you would like a copy of any of our publications, please write to BBC Charter Review, Media Centre MC4 C3, 201 Wood Lane, London W12 7TQ.

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