

## **THE LAUGHTON REPORT**

NOTE: This Report by Professor Roger Laughton is a piece of independent research commissioned by BBC management as part of their process of assessing the nine month Local Television News Trial in the West Midlands region from December 2005 to August 2006.

It will help inform BBC management as it draws up its proposals that may be sent to the BBC Trust in the event of a Public Value Test application to the Trust for permission to roll out a service of Local TV News across the UK.

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**THE BBC's LOCAL TELEVISION PILOT  
IN THE WEST MIDLANDS**

**An Independent Assessment**

**By**

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## 1 SUMMARY

This report contains a discussion of the public value and market impact issues likely to arise if and when the BBC proposes to introduce local television services in the UK. It focuses on the evidence arising from a pilot project in the West Midlands between December 2005 and August 2006.

**Sections Two, Three and Four** describe the scope of the project, considering three important definitions and summarising the reviewer's approach.

**Sections Five and Six** outline the thinking behind the BBC's proposals and the overall media context in which the pilot was launched.

**Section Seven** considers the performance of the pilot services against the BBC's own benchmarks. **Section Eight** contains a discussion of other aspects of the six piloted services.

**Section Nine** assesses how, on the evidence of the pilot, the BBC is likely to demonstrate that local television can build public value, especially distinctive public value.

**Sections Ten and Eleven** consider the role of other players in local media markets, particularly the local and regional press, and attempt to identify the key considerations that should be taken into account if and when a market impact assessment is commissioned.

**Section Twelve** outlines the reviewer's conclusions.

## 2 SCOPE OF THE PROJECT

I was asked by the BBC in October 2006 to undertake an independent review of the local TV pilot in the West Midlands.

In general, my brief was:

- to look at how the pilot developed the BBC's commitment to building public value;
- to report on whether new local television and video services could be an efficient and effective use of the licence fee.

Specifically, my brief was agreed at the outset as follows :

- To assess the impact of the local television pilot on the West Midlands media market;
- To determine whether the pilot can enable the BBC to develop and grow partnerships in the region;
- To consider the extent to which the proposed BBC local broadcasting model might encourage or discourage the growth of other local services on all platforms, including broadband;
- To consider the extent to which the new services enrich the offer from the BBC to licence payers in the West Midlands;
- To determine whether the new services are value for money;
- To assess the impact of the new services on the BBC's civic engagement in the region;
- To determine whether the new services help develop media literacy.

The report addresses all these issues, but I have reported my findings in such a way that they address directly the questions that will be posed when and if BBC management takes the decision to apply to the BBC Trust for a new licence (or new licences) for local video or television services across the UK.

So I shall report on the progress of the pilot, on the audience research findings and on the ways in which the pilot contributed to building public value in the West Midlands. I shall then consider some of the issues that will need to be taken into account at a later date when and if market impact studies are commissioned.

In the end, any individual judgement about the net public value of a proposed new service is bound to be qualitative and subjective. So I have also tried to find relevant historical evidence that relates to past BBC broadcasting developments outside London. In particular, it proved helpful to take into consideration lessons learned from a previous BBC local broadcasting experiment in Hull.

### 3 DEFINITIONS

A problem from the outset has been understanding what is generally understood by three key words – **local**, **television** and **market**. All three have been capable of taking on different meanings in the context of the BBC's pilot.

OFCOM's discussion of the issues in DIGITAL LOCAL (January 2006) proved helpful in approaching this task.

#### *Local*

Consumers, broadcasters and commentators have formed different perceptions of the geographical scope of the BBC's pilot. As late as September, 2005, the BBC itself was referring to the proposed services as 'ultra local', prompting hostile reactions from newspaper interests and unfounded anticipation elsewhere.

'Local' means something different in Hereford from what is understood in Birmingham. In big cities, your neighbourhood is local. In more rural areas, where you can drive ten miles to find a supermarket, a neighbour may live in the next village. The BBC's new Coventry and Warwickshire local broadcasting centre has learned how the expectations of Coventry's citizens differ from those held in the villages of rural Warwickshire.

Audience feedback during the pilot also revealed that many viewers confused their existing regional services with local television.

The BBC's pilot was intended neither to replace regional television nor to provide community-based services. Pat Loughrey has described it as intended 'to make BBC television news as local as radio.' Overall, the BBC's proposition is to make local content available in all media wherever and whenever consumers and citizens can be reached.

The existing local radio areas were used as the sub-regions at which six pilot services were targeted.

Eventually, depending on government and regulators, another tier of broadcasting – far more localised than the BBC's services – may emerge. But that lies ahead and is unlikely to be seen as a BBC project.

## *Television*

By the end of the pilot period, the BBC was delivering local content in the West Midlands to any screen, large or small, which could receive the services. The output as a whole was described as local television.

In this report, I shall at times be making a distinction between two major distribution mechanisms – **local television** and **local video**.

**Local television** was delivered to viewers at scheduled times and in linear form. In the pilot, digital satellite was the only means of accessing this form of the service.

It may be that digital cable will be available in the near future, but only in some areas. Eventually, and subject to policy decisions about spectrum that will be mentioned later, local television may be delivered on DTT.

**Local video** comprised of on-demand content delivered to screens by the internet or broadband, with the added possibility of interactivity.

Local video included regularly updated bulletins and individual items, ranging from weather forecasts to viewers' productions. By the end of the pilot, news items were being delivered to a big screen in Birmingham, to trains, and to mobile phones.

As will become clear, I think the issues posed by the introduction of local television and local video are not identical. Local television services are an additional demand on a finite resource, BBC spectrum. Local video services are an add-on to the BBC's online output, are already being provided in at least one BBC broadcasting area outside the West Midlands and do not face capacity constraints at this point.

For convenience, I shall continue to use the term '**local television**' in the assessment of the pilot. But I shall return to the differences between **local television services** and **local video services** later.

## *Market*

The BBC's local broadcasting areas conform to the areas covered by ITV and local commercial radio. Consequently, like-for-like comparisons about audience reach and size can be made. Transmitters still determine the broadcasting map.

There is no easy comparison to be made between broadcasting areas and the circulation areas of the 200 regional and local newspapers published in the Midlands by 22 different owners.

The Newspaper Society has suggested each of the BBC's local television proposals ought to be submitted for licensing separately after an individual market impact assessment. The BBC indicated an early preference for a single market impact assessment to be carried out for all its proposed local television initiatives.

The question of which markets need to be addressed will be discussed later. For the moment, it should be noted that the BBC and its newspaper critics have not formed a common view of the shape or size of the market places in which news is gathered and published.

At the end of August, 2006, the Newspaper Society announced it is examining new ways of measuring share in its local news markets. The BBC, too, will almost certainly need to develop a more robust currency to measure the impact of its local services, given the number of different platforms on which they are likely to be delivered.



#### **4 THE REVIEWER'S APPROACH**

My original brief allowed up to 25 days for the project. In fact, I chose to spend considerably longer, probably around 45 days in all. Even so, there were bound to be severe limitations on what could be achieved – particularly the need to view six local outputs.

Evidence was gathered in a variety of ways:

- Watching as much of the output as possible. Given my base outside the West Midlands, my viewing was skewed towards local video on broadband;
- Visiting all the BBC broadcasting centres involved in the pilot;
- Talking to the BBC's critics in the press and radio;
- Viewing other local television and video initiatives in Hull, Preston and Manchester;
- Reading relevant publications by the BBC and OFCOM;
- Qualitative and quantitative research commissioned by the BBC and others;
- Limited research, commissioned by me, on newspaper circulation trends;
- Attending conferences in Manchester and Bristol as well as three BBC-organised seminars in Wolverhampton, Birmingham and London;
- Meetings with DCMS, DTI and OFCOM;
- Talking to and visiting the BBC's partners;
- Seeking feedback from opinion formers and stakeholders, including MPs in the West Midlands and members of the Regional Advisory Council;
- Meetings with BBC staffs involved in the project.

The most useful evidence came from regular meetings with David Holdsworth and his team. They were willing to discuss issues frankly and fully at all times, never showing frustration at my many enquiries.

## 5 CONTEXT

An appetite for more local news has been a constant in audience research from the beginnings of broadcasting. The BBC's New Services Public Value Test, conducted in the spring of 2005, demonstrated the high value placed by consumers and citizens on more localised services.

A BBC memorandum of 1925, quoted by Asa Briggs in his history of the BBC, stated: 'Those who have not been much in the Provinces cannot assess the extraordinary value placed upon the local station by provincial listeners.' Finding the best way of satisfying the appetite for more programming made in and for the nations, regions and localities of the UK has always been an issue for the BBC.

In England, broadcasting was initially based on three mega-regions, loosely based on the divisions of Anglo-Saxon England : North (Northumbria), Midlands (Mercia) and the West (Wessex). The coverage of these regions was determined by transmitter geography, which also enabled the broadcasting of some content to sub-regions.

By the 1960s, the arrival of a regionally-based commercial television network, ITV, led to a new BBC television strategy outside London. Nine-sub regions provided news services. Manchester, Birmingham and Bristol remained centres of network production for television and radio. Local coverage became the responsibility of a chain of BBC local radio stations, launched in advance of the coming of commercial local radio in the 1970s.

Briefly, the BBC considered a local television pilot, based in Stoke-on-Trent, in the mid seventies. But the cost of developing such a service alongside the expanding local radio services was deemed too high. That remained the position until recently.

This overall service pattern lasted until the 1990s. The arrival of digital technology brought change. The BBC understood it needed to establish a presence on all available platforms, investing heavily in online services. An experiment in Hull between 2001 and 2005 demonstrated how a determined commitment to provide an overall broadcast service in all available media could connect the BBC more closely to licence-payers locally. The market impact of this intervention is discussed in more detail later.

It was not until the 2003 Communications Act that media ownership regulation was relaxed sufficiently to allow commercial media players to pursue an equivalent multi-media strategy. An additional problem for ITV, the BBC's major television competitor, was the habit of looking inwards as the network of fifteen companies moved towards single ownership, a consolidation that took a major step forwards in 2003 with the merger of Carlton with Granada.

Newspapers, in Britain and worldwide, have been slow in coming to terms with competition from the internet. Sharp declines in readership in recent years have been accompanied by loss of commercial revenues to the web, particularly recruitment and property advertising.

Hindsight suggests it is no coincidence that three of the most innovative UK media companies of recent years - the BBC, Channel 4 and the Guardian Media Group – do not have direct responsibilities to shareholders. Each of these organisations has interpreted its public service remit as a reason for investing in new ways of delivering content. As a result, each appears to be surfing the wave of change more gracefully than competitors with direct responsibilities to shareholders.

Looking ahead, the BBC has publicly committed to building the public value of all its services by delivering original content on any platform its consumers wish to use whenever they want to access it. The West Midlands – a region including largely rural areas, shire counties and a major conurbation – was chosen as a good test bed for achieving the specific strategic aim of delivering as local a service as possible, ‘to achieve something that works with existing providers and leaves space for new providers’, as the DG put it in March, 2006.

Keeping pace with the implications of change has been a challenge. The pilot project was approved in the spring of 2005 and concluded in August 2006. During 2005, UK broadband connections rose from 40% of a total 15.4 million internet connections to 62% of 16.3 million connections. By the end of March, 2006, 43% of UK households had access to broadband – in total 11.1 million broadband connections. This is an astonishing rate of growth, faster than that envisaged by commentators like Philip Graf three years earlier.

OFCOM’s report, DIGITAL LOCAL, published in January, 2006, discussed the key issues raised by this explosion of digital distribution mechanisms, considering the options available for delivering local television and video as well as the public value that might be generated by such services. However, by advocating a ‘wait and see’ policy for local television, the report frustrated those commercial and community interests currently broadcasting local television on analogue who had hoped for a clear signal that digital spectrum would be reserved for the development of their services.

The outcome of the Digital Dividend review in a few months may lead to clear policy outcomes involving future spectrum allocation and support for local content provision. So far, the BBC has had a clearer run at exploring local television and video services than its competitors.

Despite the uncertainties, GMG launched Channel M in Manchester in the summer of 2006. Broadcasting all day, with a staff of over a hundred, it is an ambitious and risky venture.

Most regional newspaper groups have also now announced significant investment in creating and delivering local content.

Johnston Press has established a multi-media newsroom at Preston. Associated Newspaper's digital division has announced plans to launch a number of 'hyper-local' community news web sites.

ITV Local has been piloted in the Meridian region.

2007 looks like being an even busier year for local commercial media launches, especially online.

## 6 THE PROPOSITION

The BBC is committed to six public purposes, enabling it to build public value:

- **Sustaining citizenship;**
- **Promoting education and learning;**
- **Stimulating creativity and cultural excellence;**
- **Reflecting the UK's Nations, regions and communities;**
- **Bringing the world to the UK and the UK to the world;**
- **Building digital Britain.**

These BBC commitments lie behind the proposition that, during the period of the next Charter, the public will seek more local, relevant news and information from the BBC. So the vision for local television is a local TV news and features service for cities and counties across the UK, incorporating community content, in linear and on-demand form.

The BBC recognises that the audiences for its existing early evening regional news programmes are, on average, getting older. It has identified the need to introduce more opportunities for dialogue with audiences. Initial audience research in Worcester, Wrexham and Liverpool, combined with feedback from the Hull project, demonstrated a hearty appetite for more localised television programmes.

In order to hone the proposition and to generate best practice in news gathering and editorial safeguards, the BBC decided to mount a nine-month pilot in the West Midlands, offering six distinct local television services. Just under 10% of the UK's population lives in the West Midlands, currently served by eight evening papers and 60 weekly papers.

The West Midlands is a good test bed, capable of being split into six areas – two of them largely rural (Hereford and Worcester, Shropshire), two of them shire counties (Coventry and Warwickshire, Staffordshire), two of them urban (Birmingham, the Black Country). Local television was built around four existing local radio broadcast areas, although one, BBC Radio Stoke, does not have quite the same footprint as BBC Staffordshire TV. Two other local television areas - Birmingham and the Black Country - share a radio service from BBC WM.

The local television trial was intended to use the existing infrastructure of local radio and internet to create fully integrated multi-media production centres, providing the whole range of BBC services for the local area. Based on such a model, there might eventually be up to 66 local broadcasting stations in the UK – 48 in England and 18 in the Nations.

The potential service benefits of local television were perceived to be:

- Reaching new audiences with relevant locally based programming;
- Providing a localised service in line with that already delivered to radio listeners;
- Improving and extending the links between *Where I Live*, local radio and television;
- Additional resources and staff to increase the BBC's news-gathering capacity locally;
- Additional material for regional and national programmes;
- Breaking down the barriers between existing media platforms, placing the emphasis on gathering original multi-media content;
- Increased accessibility of local content;
- Introduction of specialist community-generated content in each area.

The BBC might have added that the provision of additional news gathering capacity in areas where there is often a monopoly news gatekeeper is another public good.

The linear version of the pilot was planned so it could be seen on a separate satellite loop, accessed by the red button, with the service available for ten minutes each hour. Digital cable was seen as a possible additional means of delivery.

On-demand content would be available on broadband, where users could access either the ten-minute bulletins, regularly updated, or individual items.

If other delivery mechanisms became available, these would be brought into play too.

The potential satellite and on-demand viewer audience was around 2.5 million people.

The content would comprise of news, sport, short features, weather and user-generated material.

Each site would have five additional video journalists, as well as a community producer. It was also hoped that a faith producer, paid for by the BBC Talent initiative, would join each team to test the possibilities of generating material from faith and religious communities.

The news editor at each site would commission items, liaising with a small central team in Birmingham. The final assembly of the bulletins would take place at the hub, a purpose-built (for the pilot) technical and editorial area in the Mailbox where last-minute editorial and technical checks could take place.

A number of specific performance targets – measuring reach, quality, value and impact – were set for the pilot.

Overall, the service would be expected to provide net public value for the BBC's licence payers.

## 7 PERFORMANCE AGAINST BBC TARGETS

Accumulating reliable audience research evidence at the local level presented a range of challenges.

The two user groups from whom data was collected – digital satellite viewers and broadband users – needed to be reported in different ways.

Data from the satellite tracking survey was based on three small samples taken at different times from March onwards. Broadband data was based on evidence from the BBC server logs. In terms of numbers, over 1500 satellite viewers were contacted, of whom 198 had sampled local television. Broadband responses totalled 2900.

Particular caution needs to be applied to the evidence from the six different areas involved in the pilot. Identifying specific local differences in the impact of local television may be stretching the evidence further than it can be taken. That said, it seems likely that, as in BBC local radio, viewers in rural areas valued the additional services and watched more frequently than viewers in urban areas.

The evaluation structure chosen by BBC Nations and Regions mirrored the BBC's corporate measurement framework, as laid out in *Building Public Value*, by gauging:

- The pilot's impact on reach to BBC services;
- The audience's perceptions of the quality of the service;
- The impact on individuals using the service;
- The citizenship impact of the service;
- Whether the proposed service offers value for money for the licence payer.

The BBC is compiling a detailed internal report on its research findings, which was not available in final form when this report was completed. But I have seen the key evidence, which enables me to highlight some of the headline findings.

### *Reach*

The reach target of 15% was just about achieved, according to the BBC.

In the case of satellite viewing, the service was close to target by March. There was also strong growth in frequent users over the period of the trial. Satellite viewers are likely to have responded to on-screen promotions, linked to regional news output, more directly than broadband users.

In the case of broadband users, there was an increase in take-up throughout the period of the pilot as a fast-growing broadband universe was accompanied by greater awareness of the service.



By the close of the pilot, more viewers were accessing the services by satellite than by broadband, but the gap between the two distribution channels had narrowed markedly.

There was no evidence of cannibalisation of the existing 18.30 regional news service. MIDLANDS TODAY's share has grown year on year.

The age profile of local television users was significantly younger than the audience for MIDLANDS TODAY, both on satellite and, more markedly, on broadband.

Early indications were that habitual viewing, three or more times a week, was lower for local television than for regional television, but not by much.

### *Quality*

The enthusiasm shown in pre-pilot research for the concept of local television was repeated by those who had experienced it. Approval scores for quality and distinctiveness were good.

A useful additional research tool was a series of meetings with 'deliberative juries' at the conclusion of the pilot, four held outside the West Midlands and one held in the area covered by BBC Coventry and Warwickshire TV. The general feedback from these was positive, although the different expectations of the city of Coventry and the county of Warwickshire meant that the BBC's pilot was not local enough for some licence-payers.

There was also anecdotal evidence that the limited scope of the service – a short recorded linear bulletin accessed by a red button or called up on a PC screen – may not have matched some expectations.

Overall, users were more positive about the BBC's local relevance than non-users.

### *Consumer and Citizen Benefits*

Viewers recognised the consumer and citizen benefits of the proposition. The approval targets set by the BBC appear to have been achieved.

The proportion of content made by viewers was just over the 25% target set at the outset of the pilot. Over 3000 people attended sessions led by community content producers, with about 800 attending workshops.

The experience of the pilot suggests that local television could play an important role in stimulating media literacy.

### *Value for Money*

Licence-payers appeared to be willing to rate local TV at least as highly as other BBC services, existing or projected, when responding to questions about value for money, a conclusion confirmed by research published by DCMS in September, 2006.

The average consumer value ascribed to local TV was £5; the average citizen value was £3. The real cost of rolling out local television services in the form proposed by BBC Nations and Regions would be significantly lower.

However, against forecast, the pilot cost per hour was higher than anticipated at the outset by a significant margin. The pilot stayed within budget by good housekeeping measures, but that included winding down the service significantly during its final weeks. A full roll-out across the UK needs to be costed carefully.

The BBC will undoubtedly have learned lessons which could be put into practice if a full national service were to be launched. A national roll-out would have advantages of scale, as well as opportunities to explore more efficient ways of developing cross-media working.

There was also added value for both national and regional news services from the additional resources dedicated to news gathering in the areas covered by the pilot.

The evidence is less clear as to whether overall BBC reach would increase, if local TV news services were the sole component of a more localised strategy. What is certain is that local television is likely to be a good way of addressing the long-term decline in audiences for BBC regional news, ensuring that new generations of licence payers will be able to access local news in a form and at a time that suits their lifestyles.

Whether licence payers would prefer additional local services to be paid for by an increased licence fee or by a re-distribution of the existing licence fee is a separate issue which was not addressed by the research questions.

## 8 CHARACTERISTICS OF THE SERVICE

In the previous chapter, the BBC's research findings were summarised. In this chapter, I shall offer some additional personal comments on the extent to which the pilot delivered the benefits that were outlined in the proposition (Section Six).

### *Did the pilot deliver the proposition?*

The project stuck closely to its brief. Overall technical and editorial standards were good, a considerable achievement given the inexperience of many staff and the speed with which the project was mounted.

Nearly all the specific benefits listed in Section Six were achieved. In particular, I was impressed by the way in which the local television teams fitted into the existing editorial and management structures of the local stations at which they were based. To an extent, the pilot had a 'transformational cultural' role, as one executive put it.

This newsroom integration had a direct impact on the local services on screen. At the start of the pilot, the *Where I Live* sites and local television bulletins might have been compiled on two separate planets. By the end, navigation between the platforms was much improved. An overall editorial structure was clearly in place. Local multi-media broadcasting was working.

### *Delivery Issues*

Neither satellite nor broadband consumers were totally satisfied even when, as citizens, they welcomed the principle of local television. Both user groups had to do more than change channels in order to access local television.

Satellite viewers who had discovered how to use the red button were sometimes frustrated at the delay in accessing the local service. Some also noted the programme was not updated as often as they had hoped. The more you know about what is happening, the more you expect of the live medium that reports it. Local viewers will be more critical of coverage of news about their neighbourhood than they will about coverage of faraway events.

Broadband consumers were often frustrated in the early months by navigation and access issues. When broadband speeds and user skills increase, as they did during the pilot period, such frustrations die down. The on-demand service was valued, with users more likely to access individual stories than complete bulletins.

The hoped-for carriage on cable did not take place. On the other hand, by the end of the pilot, short tailor-made local bulletins were available on trains in the Birmingham area, on mobile phones and on the Big Screen in the centre of Birmingham.

The ghost at the feast was DTT. In the medium term, licence payers will expect BBC news, however local it is, to be carried on the dominant free-to-air platform. But it is unclear whether this will ever be possible across the whole of the UK, given competing claims for spectrum. The BBC would be rash to make a commitment to DTT carriage for local TV ahead of the outcome of the Digital Dividend Review next year and the spectrum policy decisions that are likely to follow.

In the long term, broadband delivered direct to the main viewing screens in the home could resolve this coverage gap. If this is the case, it suggests that the on-demand model of local video news, regularly updated, might eventually supersede the linear model of a local television news programme scheduled at a fixed time each day.

It is worth noting that the local satellite news bulletins in the pilot were usually updated no more than once a day, unless there was a major running news story. Unlike today's network and regional news bulletins, the local television news experience in the West Midlands was never live.

Satellite delivery has a value in the short term, not least as a promotional mechanism. But can universal coverage be achieved if BBC television news bulletins are available only on satellite, cable and broadband platforms? The questions of how new services will be distributed and paid for after 2014 need to be answered before a commitment is made to deliver BBC local television nationwide.

### *Content Issues*

The video journalists, trained for their specific task in a few weeks, did a good job. After some initial teething problems, when the editorial style occasionally seemed to depend on deliberate camera wobble, the items were well constructed and well made. Sound quality was sometimes below par. But, overall, the items matched BBC quality standards. Output was sometimes shared with MIDLANDS TODAY and NEWS 24, which thus had access to a wider range of material.

News, weather and sport were popular. The service enabled the BBC to offer more comprehensive coverage than before of the local elections. It also enabled big stories, like the Peugeot closure, to be covered at length. Another strength was the ability to reflect local angles on national stories, like the impact of budget cuts on local NHS services.

News features offered the opportunity to give a platform to more people. The 'On the Spot' series, in which local MPs answered viewers' questions directly, was a good example. Links to local newspaper websites were a useful add-on benefit.

The value for citizens of having access to an alternative news provider was occasionally apparent. The local evening paper in Birmingham had no time for David O'Leary, nor he for it. The BBC was able to provide a platform for both parties.

A major innovation of the local services was the commitment to user-generated content. 25% of the output was generated by the community and faith producers. Sometimes, as in the case of Rural Media in Hereford, a single supplier was sub-contracted to provide community items. More often, young BBC producers worked with individuals and organisations to help them get their message to viewers. The items were usually well crafted, and always distinctive.

The news bulletins were less successful than the individual items in terms of structure and pacing. Ten minutes may well have been a longer time slot to fill than the news gathering resources could support.

More in-vision presentation might have given programmes more shape, although this should not mean hiring a local personality to sit in a suit in a studio. The young presenters of the pilot service were good at linking items themselves from local locations.

Weekend coverage, short of hard news, might have benefited from a different editorial approach.

Towards the end of the pilot, resource strains were showing on screen as weather forecasts and fillers increased in length.

Part of the problem, it seemed to me, was the need for bulletins to be processed at the hub in Birmingham. Too often, items arrived at the same time, causing a traffic jam at the technical desk and delays in updating running stories. If possible, it would be better for bulletins to be assembled and transmitted from local sites. Effective technical and editorial safeguards could be put in place. Some kind of central hub would be needed to allow 24:7 editorial and technical flexibility, but not the level of operational involvement practised during the pilot.

#### *Differences between areas*

One of the strengths of the pilot was that each area developed in its own way, with central light touch editorial supervision ensuring standards were maintained across the board during the experimental period.

The rural and shire stations seemed to find it easier to hit the ground running than the Birmingham and Black Country services. This may simply be that it was easier to grow up fast in the smaller integrated newsrooms than in the Mail Box – the ‘small fish, big pond’ factor.

It may also reflect the experience of existing local radio services where, throughout England, the more rural the area covered by the BBC, the larger the BBC’s share of the audience is likely to be. Certainly, there appeared to be more genuine audience enthusiasm for local TV in a rural area like Shropshire than there was in Birmingham.

The success of cross-media working practices during the pilot should benefit the BBC overall.

*Conclusions*

I drew two firm conclusions from my own observation of the pilot services.

**The choice of the BBC's local radio areas as the spine of future multi-media content services in England is an important and correct strategic move.**

**Investing in additional news gathering resources in local broadcasting areas, if it can be afforded, will enable the BBC to deliver added value to licence payers.**

## 9 BUILDING PUBLIC VALUE

The BBC's six public purposes, outlined in Chapter 6, needed to be met in order to build public value:

- Sustaining citizenship
- Promoting education and learning
- Stimulating creativity and cultural excellence
- Reflecting the UK's Nations, regions and communities
- Bringing the world to the UK and the UK to the world
- Building digital Britain

One of the tasks any new service faces is whether it is aligned with these purposes. On the evidence of the pilot, there is no reason to doubt that local television can be mapped onto all six – particularly the first, fourth and sixth.

In this section, I shall summarise how local television furthers the achievement of these purposes and offer related examples. I shall also comment on the BBC's partnerships, another area where the BBC sought to demonstrate its commitment to building public value.

How successfully the public purposes could be delivered on screen - as distinct from in text, print or on radio, was, of course, a prime objective of the pilot. This may seem obvious, but not all news providers have yet woken up to how converging technology and changing consumer preferences affect their role as gatekeepers.

Adding pictures to sound and text, even without the additional commitment to news gathering, was in itself a significant addition to the public value of BBC news services.

### *Sustaining citizenship*

- Additional news gathering resources in communities, the core benefit of the whole initiative, enabling the BBC to improve its performance as a national provider of news and information [extended local election coverage];
- Stimulating debate on important local issues [reporting of local hospital closures, widening the M6];
- Enabling more citizens to access local and national media, including the BBC [25% user-generated content];
- Giving elected representatives more direct access to voters [On the Spot features with MPs in 2 areas];
- Consumer advice and protection [item on litter wardens in Bridgnorth being re-shown at Council offices on video loop, broadcasting safety messages from Shropshire Fire and Rescue].

### *Promoting education and learning*

- Working to create more learning opportunities for young people [partnership project run at BBC Radio Stoke to teach youngsters video skills];
- Stimulating the campaign for media literacy by commitment to user-generated content [links with Rural Media in Hereford];
- Links with schools and FE colleges [featured animation projects in Dudley, working with 19 schools in Coventry and Warwickshire];
- Working with universities [Worcester, Staffordshire].

### *Stimulating creativity and cultural excellence*

- Celebrating success of local film-makers [BIFTA film evening in Shropshire];
- Working with small independent producers [Definitely Red in Birmingham, Sapiens Productions in Shrewsbury];
- Links to community arts projects [Dudley Performing Arts].

### *Reflecting the UK's Nations, regions and communities*

- Investment in user-generated content [BBC investment in community and faith producers was major factor in generating 25% of output];
- Support for and involvement in local events [St Thomas' Community Games in Dudley];
- Coverage of countryside projects [Shropshire Wildlife Trust, Rural Media in Hereford].

### *Bringing the world to the UK and the UK to the world*

- Output reflecting local faith communities [10 different faiths reflected on screen in Birmingham and Black Country, 46 items transmitted];
- A shared learning day for 30 Muslim delegates and BBC faith producers in Birmingham.

### *Building digital Britain*

- Partnerships with other public initiatives [Switch On Shropshire, DigiTV, CSV];
- Building audiences for digital communications [some evidence of increased usage of *Where I Live* in pilot areas];
- Introducing new consumers to broadband and digital satellite television [BBC audience research];
- Stimulating media literacy [see above].

The BBC will have no difficulty in identifying other specific examples of how additional public value can be created by a roll-out of local television, building, in most cases, on relationships developed by the local radio stations.



I asked 60 local MPs and 12 members of the Regional Advisory Council for their views on the pilot. The results were underwhelming.

Just seven MPs responded; three were supportive, three were neutral and one thought it a poor use of public money.

Only one of the members of the Regional Advisory Council responded; her comments were valuable. Apparently other panel members were unused to 'unofficial' communications about BBC projects.

Overall, partly because of a stand-off with newspaper groups, the BBC's services seemed to attract very little comment, except in the trade press, although it is naïve to expect other local media to grant the oxygen of publicity to a perceived competitor.

### *Partnerships*

Another area where the BBC has committed to creating public value is in building partnerships with other organisations. Here the record of the pilot is of steady improvement after a slow start.

One of the newspaper executives I met while compiling this report said: 'When the BBC talks about partnerships, it feels like a threat. I'm not sure they know the meaning of the word.'

There is a grain of truth here. Partnerships are two-way relationships where a purpose is shared over time. So, for example, a local newspaper group was being described as a 'partner' at the time one of its editors was complaining to his local MP about BBC local television.

BUILDING PUBLIC VALUE, in 2004, announced the launch of a Partnership Contract, making 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.' But other organisations are as resource rich as the BBC; many potential partners might have welcomed BBC cash more than BBC resources. In any case, very few of the partnerships in the West Midlands appeared to incorporate mutually agreed performance measures.

There was an understandable explanation for under-performance at the outset. The first months of the pilot put pressures on all the BBC staff involved. Developing new relationships with other organisations were not the first management priorities. As a result, tensions with the press, in particular, were never eliminated, despite briefings and other overtures from the BBC.

One newspaper group, Trinity Mirror, did sign a Letter of Intent with the BBC. Even so, its conclusion after the pilot was that 'nothing substantial' had been achieved, although it acknowledged an improved relationship with BBC Midlands and recognised the role the BBC could play as a training organisation.

There was an element of Catch 22 in one of Trinity Mirror's criticisms - that the pilot generated little or no significant impact. If it had generated more impact, it is at least possible that Trinity Mirror would have complained of unfair competition.

More constructively, Trinity Mirror would like to see a commercial 'agency' relationship with the BBC for news content supplied by their video journalists to the BBC. The Press Association has already identified a potential role for itself as a local video news agency.

The other exception to the overall pattern of press relationships was the Shropshire Star which, at a local level and without any formal agreement, worked amicably with BBC Shropshire on specific projects.

If the impetus towards partnerships seemed sluggish at the start, it is worth noting three more factors. First, elephants don't always see smaller creatures - and BBC executives can forget how powerful the BBC can seem to others in the media forest. Second, the BBC in the West Midlands is a great deal more open to developing two-way relationships than it used to be. Third, nine months, the duration of the pilot, was scarcely long enough to develop long-term relationships or to measure the value of the partnerships that were formed.

Existing local radio relationships were sometimes useful, especially where the BBC was visible to the local community. BBC Stoke and BBC Coventry and Warwickshire had a head start in building community links because of their city centre locations and open door policies.

But the most fruitful area of partnership working was the result of the commitment to invest in user-generated programming, as an integral part of the six local services.

Where the BBC trusted its partner's ability to deliver value, as in its relationship with Rural Media, a community production charity based in Hereford, the results were good. Rural Media delivered 62 films to BBC Hereford and Worcester in return for a modest cash payment. Both parties to the contract agree the output was of good quality and value for money.

But few other organisations currently have the resources and leadership of Rural Media. So the BBC's community and faith producers played a critical part in stimulating content creation, often working with individuals or organisations with no previous media experience. Once they were up and running, their activities generated unique feature material that no other broadcaster was carrying. With training and technical support from the BBC, individuals and organisations were able to talk to their neighbours about their work and beliefs.

It took time for the BBC to identify some of the other public bodies with whom they could work. In particular, other publicly-funded initiatives to build digital Britain were not fully on the radar at the beginning of the project. By the end, links with Switch On Shropshire and Digi-TV had been successfully made with positive outcomes.

The Community Channel, itself an advocate of publicly-funded community television, believes BBC local engagement can deliver long-term public benefits by supporting local producers.

The BBC's decision to base its local television output in its existing local broadcasting areas leaves space for community-based video services, like the Digital Bridge project in Shoreditch, to emerge at the ultra-local tier of broadcasting.

An added emphasis on **building two-way partnerships** should be included in any projected roll-out of local television and video services.

#### *Creating Distinctive Public Value*

The BBC is not the only organisation creating public value. The Newspaper Society provided compelling evidence of the value of local papers, which, unlike the BBC, are not seeking public money to deliver their content online or on video. It made a strong case that newspapers deliver more public value than any other media player at the ultra-local level.

Commercial local radio can also demonstrate examples of how it performs a public service function.

Both press and radio interests argue that the BBC's local television plans will seriously damage their competitive position.

To justify its increased intervention in local markets, the BBC needs to argue its case on grounds of **quality** and, most importantly, **distinctiveness**.

I have already reported that, on the basis of what I saw and heard, the BBC's output was of high quality editorially and technically. None of the BBC's opponents raised quality issues, except insofar as the BBC's quality standards raised the stakes in terms of their ability to compete.

But, to justify any new investment in local television and video services, distinctiveness must be a key ingredient of the case the BBC puts forward. The BBC is not just creating added public value; it must seek to add value that cannot be provided by anyone else.

So what would make a BBC intervention in these markets distinctive?

- The BBC has correctly chosen to base a more locally-based service on local broadcasting areas where it is already a player in text and radio. Delivering video news, features and information is an extension of the current remit, which – with added investment in news gathering and user-generated content – would be strengthened.
- The BBC would need to make a clear commitment to providing a national service of local television, reaching all parts of the United Kingdom. I have no doubt that increasing the video content of the BBC's broadband services could be, in the medium term, an important ingredient in building digital Britain. I am not convinced that a parallel commitment to providing local television on DTT can yet be made.
- A more localised BBC service would ensure that, throughout Britain, there is effective plurality of voice. A more local BBC should seek to work with other news providers as well as maintaining enough resource to compete with them where necessary.
- The BBC would need to demonstrate a clear commitment to partnerships in which it is not always the lead partner. Some of these partnerships should be with the same organisations that currently see the BBC as a threat.
- The BBC has the ability to be the major national player in stimulating media literacy by providing extensive support and screen access for individuals and communities.
- The BBC would need to identify no-go areas as well as the areas where it can create unique public value. Critics fear 'mission creep'. The BBC's local services should 'complement the private sector', as BUILDING PUBLIC VALUE argued.
- Consumers and citizens understand what the BBC stands for. Any proposed service must embody the BBC's core values and be communicated to all interested parties ahead of its introduction.

#### *Clarity, transparency and communication*

Uncertainty about the BBC's intentions is more likely to inhibit commercial investment than any impact of new services delivered according to the West Midlands model.

The BBC should be clear about its objectives and how they can be achieved. It should be transparent in its thinking so other players can understand the processes which have informed policy. It should communicate frequently and effectively with stakeholders, consumers and citizens.

The BBC's record during the pilot was good. It showed a willingness to engage with critics and licence payers. Nobody could accuse the BBC of obscuring its intentions. As a result, despite the noise, investment decisions have continued to be made by other players in local markets over the past 12 months.

## 10 THE OTHER PLAYERS

Who are the other players delivering public value in local markets in the West Midlands, and what is their reaction to the BBC's plans?

### *ITV*

ITV competes with the BBC for audience share. In line with the general decline in ITV audiences, regional news programmes have lost audiences faster than the BBC's services.

ITV is experimenting with the provision of on-demand broadband local TV services in the Meridian region. As far as I am aware, ITV has made no public comment about the BBC's plans to roll-out local television.

Some observers believe ITV will eventually choose to introduce more localised on-demand services on broadband, leaving the regional television news market altogether.

### *Local Commercial Radio*

CRCA has been extremely critical of the BBC in general, and opposes any further BBC intervention in local markets, including the new radio areas the BBC is intending to introduce.

In urban areas in the West Midlands, competition is fierce. For example, at 8am on a Monday morning, citizens in Wolverhampton have twelve different commercial radio news bulletins to choose from. Some, like Beacon FM, focus on the immediate locality and specialise in up-to-the-minute traffic reports. Some, such as Heart 100.7, are regional. Others serve communities of interest or the nation as a whole.

The largest player in the West Midlands is GCAP, owners of Beacon FM. Its view is as follows:

'If the BBC enters this market, with a very high quality product, well before the point of commercial viability, it will seize 100% of a new part of this market that's very small – well below commercial viability. The risk is that it continues to dominate and control the majority of that market (and establish the BBC brand in this area), well after the entire market size has become commercially viable, which effectively prevents the introduction of commercial services because the **available** market share is too small.'

Commercial radio has been under pressure in recent years after a period of rapid expansion. Its local news coverage may be thinner than the BBC's, but it outperforms the BBC's local radio stations comfortably in terms of audience size, especially in urban areas. It also attracts many of the consumers the BBC most wants to reach.

CRCA argues that every market is different, and needs to be judged by different criteria.

### *Newspapers*

Local newspapers in the West Midlands are the dominant and often the most trusted providers of local news. The region contains nearly 10% of the UK population, eight evening papers and around 60 paid-for weekly papers. These vary from the major daily evening paper, the *Express and Star*, owned locally, to small weeklies like the *North Shropshire Chronicle*.

Newspapers employ far more journalists in the West Midlands than the BBC and can offer a far more comprehensive coverage of local affairs. Most newspaper groups have made significant investments in recent years to improve their core business, and nearly all the papers have associated websites, varying widely in quality. Most daily evening papers have suffered sharp declines in advertising revenues – particularly property and recruitment – in the face of internet competition. Weekly papers have maintained circulation and revenues more successfully.

The internet is a major threat to readership and revenues in the West Midlands as it is worldwide. THE ECONOMIST summarised the position in August, 2006 as follows: 'Newspapers are making progress with the internet, but most are still too timid, defensive or high-minded.'

The Newspaper Society is not worried about the BBC trying to provide more or better local news. Its concern is that the BBC will compete unfairly in the way the news is delivered – using its recourse to 'unfair economies of scale at a national level, guaranteed funding, cross-promotional muscle, privileged distribution and strong brand association with TV...'

At a stage when local broadband and TV services are starting to become commercially viable, it shares GCAP's view that a large-scale BBC roll-out might undermine the business case for commercial innovation and crowd out commercial news providers from entering the local television market.

In reality, the Newspaper Society also knows BBC local television is a sideshow, a distraction its members do not need.

I spoke to representatives of most of the major newspaper groups in preparing this report. All of them oppose BBC local TV, although there are varying levels of concern. In part, their opposition is based on suspicion that the BBC will not be happy to play the complementary role it has drawn up for itself, but will seek to dominate a nascent medium, broadband-delivered content. They point to recent instances where the BBC has intervened in local markets – like the launch of a magazine carrying advertising in Kent or online entertainment listings.

A particular complaint of editors is the feeling that news generated locally by their own reporters will be used by a competitor in the local market. “It’s one thing to face tough, fair competition,” one editor said, “It’s another to face an invulnerable rival who uses your own resources against you.”

However, the reality of the BBC’s pilot proved less of a threat than some first thought, as Tim Bowdler of Johnston Press intimated when he spoke to analysts earlier this year. He commented: ‘The BBC’s resource will be very limited and the depth of content will not be anything like the content we have on Johnston Press sites.’ Johnston Press has committed to a roll-out of seventy digital newsrooms across the UK, based on a pilot of its own in Preston. Bowdler’s overall view remains that public sector investment in local television is unnecessary and that the pilot did not add significant public value.

I shall review the Newspaper Society’s arguments about market impact in the next section.

### *Others*

There are no other commercial players who have yet come forward in the West Midlands, although the attendees of a Manchester OFCOM seminar in December 2005 included Mark Dodson, from GMG’s Channel M, who believes the BBC should focus its initiatives on rural areas.

The only successful local commercial TV station broadcasting on analogue is Channel 9 in Derry, which has achieved significant market share in its area. Its CEO, Gary Porter, is concerned that a BBC local service will threaten his existing business model. In correspondence with me, he cited the different evolution of commercial local radio in the UK and the Republic of Ireland as evidence of how an early BBC intervention can, over time, shape a market.

At present, the few other commercial and non-profit local stations, broadcasting in analogue, are struggling to keep their heads above water while they wait for spectrum policy decisions from DCMS and OFCOM. Dave Rushton of the Institute of Local TV voiced the frustration he and others felt about the lack of access to DTT at the OFCOM seminar. Nine months later, the caravan has not moved far. Spectrum availability in the digital world after 2014 is not guaranteed for any newcomers.



The business case for commercial linear local TV in Britain as a whole cannot be written yet. There are, however, a growing number of interests, led by the newspaper groups, who see online broadband as the future of local content provision.

IPTV may well be the specific delivery mechanism of choice well before the end of the BBC's next Charter period. HOMECHOICE in London, recently bought by Tiscali, remains a pioneer, although it does not, as yet, have a sufficiently large customer base to be able to offer a distinctive local news service.

One of the most fascinating questions that the pilot could not answer is how news viewing habits will alter when on-demand news bulletins and individual items are delivered to large screens in the home. My guess is that viewers will prefer short headline bulletins, updated very frequently, as they are now on BBC NEWS 24, and a menu of individual news items from which they can compile their own choice of items.

## 11 TOWARDS A MARKET IMPACT ASSESSMENT

The inescapable lesson of three reports commissioned into BBC services – by Philip Graf, Tim Gardam and Patrick Barwise – and of OFCOM's published discussions of market intervention are that market impact studies of BBC services are, as yet, work in progress.

'Who decides when doctors disagree', as Barwise noted in his report on the BBC's new digital television channels. The answer, of course, lies somewhere between the BBC Trust and OFCOM, as we shall all soon discover.

In none of these authoritative studies was a clear correlation established between new BBC services and market impact. Yet Graf's study was of the totality of the BBC's online services, Gardam was looking at several BBC radio channels and Barwise was considering four digital television services.

Philip Graf recognised that the BBC's task is not to address market failure. 'The BBC', he wrote, 'needs to be an effective competitor if it is to achieve anything more than the narrowest set of public objectives...The only systematic market impact test would be a strict one, in which the BBC could only provide a service if there would be no material risk of an adverse effect on competition'.

Tim Gardam put it another way. If the BBC discovers an audience for a new service, he argued, either the overall size of the market has increased or consumers have moved across from other services, the BBC's or someone else's. If consumers leave a commercial service, then, sooner or later, commercial revenues – subscription of advertising – are likely to fall.

There was broad agreement on how the BBC, once it has determined the public value of a new service, should approach its introduction – with an emphasis on distinctiveness, on transparency and on open communication with the markets. There was no such agreement on how to measure the impact of a new service.

Uncovering the potential market impact of a 10' daily news bulletin, delivered on satellite television and, on-demand, to broadband users in 66 areas, supported by limited promotion, will be like searching for a needle in a haystack.

I do not have the expertise to undertake such an enterprise, so, in this section, I am concentrating on what can be learned from the evidence of what has happened in the West Midlands and elsewhere already, rather than undertaking or commissioning a full market impact assessment.

The first, and most relevant, fact is that such evidence has been (and will be in future) hard to come by. Audience research findings for such a small development as local television are inevitably broad-brush, more qualitative than quantitative, as the pilot demonstrated.

Ironically, the day before local newspapers published their worst circulation figures ever, on August 31<sup>st</sup> 2006, the Newspaper Society announced it intended to change its own approach to measuring local impacts. So there is unlikely to be a reliable historical benchmark against which future BBC interventions can be measured. It might well be in the public interest for such a benchmark to be created so that arguments about impact in future are based on evidence owned by all the interested parties.

*Did the pilot services make a measurable impact on newspaper circulation, television viewing patterns or usage of the internet?*

Based on the Newspaper Society's recently published circulation figures, the six pilot local TV services in the West Midlands had no statistically significant impact on newspaper circulation figures in the region.

Local daily evening paper circulation had a terrible six months, especially the Birmingham Post and Mail. Local weeklies held up better. But the overall picture showed no significant differences between the West Midlands and the UK as a whole.

Nor did the six pilot services appear to have any impact on existing television audiences. There appears to have been no measurable cannibalisation of existing BBC or ITV services.

The only possible trend of significance is a slightly higher increase in users of the *Where I Live* sites in the local areas of the pilot, compared with the national picture.

However, nine months is too short a period for firm habits to be identified and for long-term trends to form. Given the BBC's intention to provide both a linear and an on-demand service beyond 2104, market impact studies need to address the long term potential of local television and video services to change consumer habits and to impact on competition.

The starting point is the nature of the market in which an individual service is launched.

*Which markets will be addressed?*

Working on the assumption that any roll-out will take the same form as the pilot, then the proposition will be the addition of extra BBC staff and resource in 66 locations across the UK to enable the BBC:

- To provide a localised news service on screens to complement its existing radio and *Where I Live* services;
- To reach new audiences with relevant locally-based programming;
- To improve the BBC's nationwide news-gathering capacity;

- To connect the BBC more closely with localities and communities;
- To contribute towards plurality of voice in local news provision.

BBC added investment in local news – even if generated from savings elsewhere - would impact on current and future players in news gathering and news provision. This is a major concern of commercial radio.

However, without the commitment to new delivery platforms, it is unlikely that the provision of additional journalists and producers in local radio stations might in itself be deemed to be a ‘significant change to an existing service’, triggering a formal Public Value Test (PVT).

What will trigger a PVT is the BBC’s intention to deliver its local services on all media, especially on screens, as is already happening with its national services.

So the key arguments will surround the BBC’s intention to introduce new television and/or video services at a time when local commercial content suppliers have only just begun to move beyond print, text or radio.

The Newspaper Society rightly argues that local markets vary widely in their ability to sustain commercial services. OFCOM argues the same in DIGITAL LOCAL.

At one extreme, it has been argued that there should be 66 different service licences for each of the BBC’s local services. In practice, I think the BBC needs to take account of the real differences between localities by recognising there are at least four types of market in the UK:

- London
- Major conurbations
- Mixed urban/rural areas
- Largely rural areas

The smaller the population in an area, the less likely it is to be addressed by commercial operators and the more likely a BBC service will be welcomed by citizens and consumers. Thus, the pilot appears to have been more highly valued in Shropshire than in Birmingham.

Methodology for addressing these four types of market will need to be agreed between OFCOM and the BBC Trust, probably in the context of a single overall service application. There would be no point in introducing an individual service if universality of provision were not eventually intended.

The BBC’s decision to base its multi-media operations in locations where it already offers bi-media services avoids direct competition with weekly papers, the healthiest branch of the newspaper tree, usually serving communities which are a sub-set of the BBC’s local areas.

In finalising its plans, the BBC may need to take into account the differences between two approaches to local TV - adding **local video** to the existing *Where I Live* sites (probably the precursor of future IPTV services) and committing long term to **local television**, delivered by DTT. On-demand news and scheduled bulletins at fixed times are different propositions.

As argued elsewhere, it is as yet unclear whether the BBC will ever be able to offer universally available local services on DTT. If so, it may be that the first service licences should be sought for **local video** only (unless satellite delivery is regarded as an essential marketing tool of the new services). Once spectrum issues after 2014 are clearer, a licence could be sought for **local television**.

*How valid are the Newspaper Society's arguments about the market impact of BBC local television?*

The Newspaper Society, the most vigorous critic of the BBC's local plans, put forward six market impact arguments in its July 2005 submission to the Review of the BBC's Royal Charter. I list them and add my comments.

**1. The BBC's statements on 'ultra-local' TV, as well as the experience of BBC online, raise a serious concern that the Corporation, free of commercial constraints, will set out to dominate the nascent market for ultra-local video news, as the first port of call for local TV viewers.**

The BBC's current proposals are neither ultra-local nor likely to dominate future local radio area markets.

The evidence of BBC local radio suggests the investment is likely to enable the BBC to report local news and to connect with licence-payers more effectively, without dominating the new markets that are emerging.

The BBC is also likely to have constraints placed on its activities by the terms of local service licences.

In most areas the BBC is unlikely to be the first to market.

**2. OFCOM's apparent support for the BBC playing a greater role in regional broadcasting appears to be grounded in the concern that the high cost of delivering regional programmes across a national TV network will lead to a continuing erosion of regional output and audience for ITV.**

OFCOM's DIGITAL LOCAL, published in 2006, discusses the key issues surrounding intervention in local markets. OFCOM has not taken a view on the BBC's local services at this point, but it has identified a range of possible scenarios.

**3. Rapidly declining costs of creating and distributing digital video are paving the way for smaller-scale players to offer locally-targeted programmes on TV and broadband – and audience demand should evolve sufficiently gradually for viable commercial models to emerge.**

It is correct that the costs of market entry are much lower than they were even five years ago. Some players, like Northcliffe in Hull, Johnston in Preston and GMG in Manchester are already players in the market. Viable commercial models can be drawn up now, especially for on-demand services, although uncertainty about whether spectrum will be made available for community and commercial entrants is a major deterrent to some potential investors.

**4. It is far from clear that the BBC would be best placed to spearhead the development of local digital media. While licence-payers value the BBC's Nations and Regions services, they rarely single out local programmes as what they most value about the BBC. Indeed, most of the BBC's current services in the regions are more than matched by the commercial sector in general, and the regional press in particular.**

BBC research into consumer and citizen preferences has clearly demonstrated an appetite for more local news services from the BBC. It is the BBC's regional programmes that are sometimes less valued.

If the BBC commits to a roll-out of local services in 2007, it will be taking a leading role in the development of local digital media. But the roll-out that is planned is likely to leave plenty of room for other services – particularly those that can be delivered by local papers with their traditional strength in news-gathering.

**5. The BBC does not come close to matching the depth of journalistic resource that local newspapers have deployed in local communities for decades. As a result, its 'ultra-local' TV service may ultimately resort to sourcing stories from local newspapers and re-packaging them for TV.**

The public value of local newspapers is recognised by the BBC. The BBC, like other media players, sources stories from local newspapers. The BBC has indicated a willingness to examine new forms of partnership with local newspaper groups, and it would make sense to explore these now.

There are likely to be mutual benefits to be had once the BBC's right to a presence in local video and television markets is defined and agreed.

**6. In spite of its more limited footprint in local communities, the BBC's scale economies, licence-fee funding, brand and cross-promotion (including to/from BBC local magazines) could prevent emerging commercial ventures from achieving critical mass with audiences and with advertisers. This may extend choice in the near term, but at the expense of plurality and innovation over the longer term.**

Whilst I do not accept that the BBC's advantages, listed above, will prevent commercial ventures achieving critical mass on their own, I do accept that the scale and nature of the BBC's intervention in local content markets needs to be carefully delineated. The lessons of the pioneering days of BBC Online need to be applied to local television. BBC Kent's experimental joint venture magazine project still lingers in the memories of the newspaper groups.

In general, I believe evidence of past BBC interventions suggests the BBC often stimulates plurality and innovation.

The Newspaper Society's arguments were submitted over a year ago, since when the pilot has been and gone. As I have suggested earlier, I believe the BBC can now demonstrate that the position it intends to occupy in local markets is unlikely to inhibit or eliminate competition.

The BBC can also demonstrate areas where its market impact will stimulate economic activity, such as the employment and training opportunities it can provide and the stimulus to independent production outside London. Small-scale producers can see the advantages of new long-term outlets for their work.

So one key to the introduction of local BBC television is to continue to communicate the limited nature of the BBC's proposed new services transparently to the market.

The other is timing.

*Timing*

The BBC's critics should be reassured by the knowledge that the earliest the BBC could launch its first new services is the autumn of 2007, given the timescale of approval processes. Even then, the BBC has indicated it will take four more years to roll out all 66 services.

The transparency with which the BBC has communicated its plans since the summer of 2005 has given other services a long lead time to plan their entry into these markets, if they choose.

It would be possible for the BBC to publish not just the characteristics of its new services, but the timescale within which it intends to introduce them. This would enable commercial entrants to factor the information into their plans. It would also be sensible if early investment is focussed on more rural areas where commercially viable services are less likely to emerge, where a new service will be most welcomed and where the BBC can play an immediate contribution towards the public purpose of building digital Britain.

City television is likely to be where commercial entrants will appear, some currently biding their time, awaiting the outcome of the Digital Dividend Review. If the BBC waited till 2009 before introducing city-based local television (which some might say already exists in the form of its existing regional services), the complaint that the BBC is inhibiting competition is likely to fall away. There is no evidence that the BBC is a major factor in deterring other potential market entrants, but certainty about the BBC's plans would be welcomed.

### *Lessons from Hull*

Market impacts need time to take effect. A nine-month pilot is not long enough to generate a reliable indication of long-term impacts. So it is instructive to examine the impact of a previous and more substantial BBC initiative.

Between 2001 and 2004, the BBC launched a major initiative, CONNECTING LOCALLY. The declared aim was to make the BBC more relevant to communities in Yorkshire and Lincolnshire than before. The BBC invested £25 million in a variety of new services:

- A new BBC television news region with its own edition of the BBC-1 early evening magazine, LOOK NORTH;
- A new BBC Open Centre and base in the heart of the region's major city, Hull;
- An open door policy, encouraging licence payers to boost their skills in a number of initiatives, often mounted with partners and other public bodies;
- Two BBC buses, encouraging local people to connect with the BBC;
- Learn Express – a project experimenting in the delivery of the BBC's education services;
- BBCiHull, an innovative broadband trial, bringing over 300 hours of programme content to subscribers to Kingston Interactive Television;
- A Big Screen in the centre of Hull.

This was a massive investment in a regional market by any standard, far bigger than anything envisaged in the local television roll-out.

The new edition of LOOK NORTH successfully increased the BBC's share of the audience for regional television news.



Local interactive services from BBCiHull were welcomed by users; the most popular content was local news. Indeed, although BBCiHull has disappeared, the BBC still runs a short daily video news bulletin on its local website.

As a market intervention, CONNECTING LOCALLY was a substantial move.

CALENDAR, ITV's regional news programme, took the biggest hit. Once the market leader, now it is second by a distance.

The Hull Daily Mail, a long-established Northcliffe paper, believes the BBC has eroded its heartland. At their offices in central Hull, I was presented with a strongly argued case, challenging the BBC's use of public funds to undermine the Mail's competitive position.

At the heart of the Mail's case is the perceived threat to the very existence of a paper which employs 350 people and ploughs £12 million a year into the local economy. The Mail has recently invested £2 million in its Hull offices. It can also demonstrate very clearly how it builds public value.

The Mail accepts the BBC should have a local presence, and applauds many of the BBC's activities: the Open Centre, RaW, Ican, the Digital Curriculum and Music for All. It works with the BBC on Children in Need and other projects. But it regards the expanded BBC programming commitment as an attack on the Mail's core business.

The Mail showed me the results of independent Jicreg research which demonstrated that, while Northcliffe's local papers in Hull were 'turn to first' for local news in 2003 with a 69% score, as compared with local television's score of 13%, by 2006 the margin was 52% to 21%. This trend for the local paper to be less valued in 2006 than in 2003 ran across the Northcliffe group, but was more pronounced in Hull.

There is also no reason to doubt qualitative evidence that LOOK NORTH – the daily primetime BBC regional news magazine that reaches every television household – has replaced the Mail as the dominant provider of local news. However, the BBC introduced LOOK NORTH, not as part of a move towards local news in terms of the 2006 pilot but as infill of its existing regional and sub-regional news services.

The real flaw in the MAIL's case against the BBC lies in the absence of quantitative evidence linking the BBC Yorkshire and Lincolnshire initiative to the paper's loss of readership over time.

Over a 12-year period, from 1994 to 2006, the Hull Daily Mail's circulation declined at a **slower** rate than the average decline in local evening paper circulation across the UK. The reasons for this out-performance surely include the under-performance of other competitors for revenue, like CALENDAR. But they are most likely to reflect the Mail's own determination to build its brand and protect its territory by investing in people, resources and innovation.

For example, the Mail has one of the most impressive websites of any local paper in Britain, driven by a determined editor and an impressive management team. It provides local video news items on its website, one of the handful of local news publishers to take the step. The stories report a more compact catchment area than LOOK NORTH, and their quality is good. Online, the Mail generates more hits than the BBC's local *Where I Live* site.

Given the scale of the BBC intervention, far more comprehensive than anything planned in the current local television pilot, evidence from Hull suggests that BBC competition in local markets, especially where there has been a monopoly supplier, may benefit consumers and citizens, rather than the reverse.

#### *Market Impact Conclusions*

- The impact of the BBC's proposed new services should be examined in four geographical markets, even if only one service licence is applied for;
- Different considerations may need to be applied to local television and local video;
- Market impacts are likely to be minor, given the limited scale and distinctive nature of the proposed services;
- Many of the arguments put forward by the BBC's critics can be met by early communication of the BBC's intentions and a willingness to work with those critics so that the BBC complements other providers, commercial and non-commercial;
- There is no evidence that the 9-month trial had an impact on circulation patterns in the West Midlands.
- Evidence of the impact of the BBC's significant intervention in Hull between 2001 and 2005 does not support the argument that BBC entry diminishes competition;
- The timing of the introduction of new BBC services should be clearly signposted in the interests of transparency.

## 12 CONCLUSIONS

In this section, I shall summarise the main conclusions reached during my assessment of the West Midlands local television pilot.

At the outset, I want to emphasise that the research evidence has limitations, which have been described earlier. That said, the six pilot services appeared to confirm a public appetite for the BBC to connect more with licence payers locally – a finding that has been a theme of audience research surveys, commissioned by the BBC and others, for many years.

Now that digital technology has made more local services affordable and feasible, the BBC has been able to identify appropriate mechanisms for engaging with sub-regional markets across the UK.

I drew two general conclusions from the pilot services.

The first was that the choice of the BBC's local radio areas, already the base for online services, as the spine of future multi-media content delivery, was correct.

The second was that investing in additional news gathering in its local broadcasting areas, if affordable, will enable the BBC to deliver added value for licence payers.

I judged that the pilot met the targets it was set with one exception:

- Content and delivery costs per hour higher than budgeted.

In addition, I noted the following strengths of the pilot :

- Local TV news services attracted younger audiences than regional news;
- User-generated content worked well, and has the potential to become an important ingredient of the BBC's local connections as well as an important plank of the national campaign to improve media literacy;
- Two-way partnerships between the BBC and community and civic organisations developed during the course of the pilot and could contribute towards the objective of building digital Britain;
- Multi-media newsroom working was successful, and local video journalists demonstrated they could deliver quality material up to BBC standards;
- A recognition that local differences are an opportunity, not a problem;
- The introduction of plurality of voice into some local markets.

Some weaknesses will need to be addressed if services are rolled out nationwide :

- Uneasy relationships with local press;
- Navigation and access issues for both satellite and broadband users;
- Perceived lack of local impact;
- Operational and technical issues at the pilot's hub.

The six pilot services could be mapped directly onto all the BBC's six public purposes and can be seen as an indication that the BBC is addressing weaknesses in its existing sub-regional news-gathering networks. I found it surprising that the strong public service benefits of the pilot did not achieve wider public support – although citizen and consumer reaction, as measured by the research, was positive.

My conclusions about the probable outcome of a market impact assessment of future local television services, if they take the form of the six pilot services, are summarised at the end of Section Eleven.

Evidence from the BBC's massive market intervention in Hull informed my judgement that daily recorded 7-10 minute bulletins and on-demand news items and features are unlikely to have a significant impact on other players in local markets.

However, the BBC's final plans will need to be open to scrutiny, communicated clearly and, if agreed, implemented with a sensitivity to local market conditions. The key should be to identify a strategy that maps both onto the BBC's existing public purposes and into its post-2014 strategic thinking. The timing of the introduction of new services will be important.

At the outset of this report, I suggested that **local television** and **local video** may need to be considered separately when the BBC decides the form of its final proposals.

I consider the BBC has made the case for enhancement of its local news-gathering resources and for the delivery of on-demand news bulletins and items to broadband users in its local broadcasting areas, on screens wherever and whenever viewers can be reached. In my judgement, broadband delivery will become increasingly significant in the delivery of local news to households when IPTV becomes widespread. The introduction of enhanced video news services on the *Where I Live* sites should be considered immediately. The pilot demonstrated that take-up of on-demand news items increased throughout the nine months of the experiment.

In my judgement, this enhanced service could be introduced without seeking additional licence fee funding, if the BBC sees it as a high enough priority.

The proposal for linear scheduled bulletins will raise more issues. First, although scheduled at fixed times, they are unlikely to be live, a key characteristic of all current scheduled television news services. Second, it is as yet unclear whether DTT-delivered services will be affordable or capable of universal coverage after analogue switch-off.

So I suggest it may be too early for the BBC to make an unequivocal long-term commitment to **local television**.

Value for money is the final issue. The pilot was made possible by internal savings, not by an increased central budget allocation. The case for funding this expansion of news-gathering and content delivery by increasing the budgets for BBC Nations and Regions appears to be supported by both the BBC's research and DCMS surveys. Whether the case is strong enough to see off competing claims for a slice of the licence fee is a judgement for BBC Management and the BBC Trust.

## **Appendix One : Organisations and Individuals Consulted**

### *BBC*

Pat Loughrey, Andy Griffee, David Holdsworth : Nations and Regions  
Nicholas Kroll : Governance Unit, BBC Trust  
Richard Waghorn : BBC Distribution  
Helen Thomas and colleagues : BBC Yorks and Lincs  
Pilot project team including John Allen, Laura Ellis,  
Lisa Groves, Gautum Rangarajan and Simon Stacey  
Staff at BBC broadcasting stations in Birmingham,  
Black Country, Coventry and Warwickshire, Hereford  
and Worcester, Shropshire and Staffordshire

### *Newspapers*

David Newell, Santha Rasaiah : Newspaper Society  
Phil Inman, John Meehan : Hull Daily Mail  
Tim Bowdler, Margaret Hilton : Johnston Press  
Matt Brittin : Trinity Mirror  
Ian Davies : Archant  
Colin Davison : Northcliffe  
Robert Freeman : Press Association  
Liz Griffin : Hereford Times [Newsquest]  
Alan Harris : Express and Star

### *Commercial Radio*

Lisa Kerr : CRCA  
Nick Piggott : GCAP

### *OFCOM*

Mark Bunting  
Khalid Hayat  
Peter Monteith

### *DCMS/DTI*

Jane Humphreys : DTI  
Jon Zeff : DCMS  
St John Hoskyns : DTI

### *Commercially-funded TV*

Clive Jones : ITV  
Hugh Williams : Video Networks  
Gary Porter : Channel 9, Derry  
Mark Dodson, Ruth Spratt : Channel M [and GMG]

*Other*

Jodie Flavell : BBC Regional Adviser

Nick Ware : Community Channel

Mel Lee : Definitely Red, Birmingham

Nic Millington : Rural Media, Hereford

Tom McGowran : Team 1 Consultants

Professor Martin Cave

## **Appendix Two : Documents consulted**

### *BBC Commissioned Audience Research of BBC West Midlands Pilot*

Viewer Reaction Survey [thinkvivid] : February 2004  
Pre-pilot qualitative research [MC&A] : April 2005  
Post-pilot qualitative research [MC&A] : March 2006  
Broadband User Statistics [BBC] : since February 2006  
DSAT – three waves of quantitative research [IPSOS MORI] : April, June and July 2006  
Audience workshop [Synovate] : May 2006  
Broadband online survey debrief [Synovate] : August 2006  
Deliberative juries [Opinion Leader Research] : September 2006

### *Other Research*

Newspaper circulation statistics [Team 1 Consultants]

### *BBC Corporate*

Building Public Value [BBC:2004]  
Defining Public Value [Mark Thompson,BBC:2004]  
BBC Public Affairs Charter Review briefings [2004 onwards]  
Preparing for the new BBC Trust [BBC:2005]  
Annual report and accounts 2005/06 [BBC:2006]  
BBC Statements of Programme Policy 2005/06 [BBC:2006]

### *OFCOM publications*

Radio – Preparing for the Future : Phase 1 : Appendix D  
Review of Public Service Broadcasting : Phase 2  
Review of Public Service Broadcasting : reshaping television for the UK's nations, regions and communities  
Statement on programming for the Nations and Regions  
Digital Local

### *DCMS Reviews of BBC Services*

Independent Review of BBC Online : Philip Graf [DCMS:2004]  
Independent Review of the BBC's Digital Radio Services : Tim Gardam [DCMS:2004]  
Independent Review of the BBC's Digital TV Services : Patrick Barwise [DCMS:2004]  
Review of the BBC's Royal Charter [DCMS:December 2003]  
A Public Service for All [DCMS:March 2006]



*The BBC Hull experiment*

The BBC, Connecting Locally in Yorkshire and Lincolnshire [BBC:2004]  
BBCiHull – Key Findings from the BBC’s Broadband Television Trial [BBC:2003]  
Building Public Value in Yorkshire and Lincolnshire [BBC:2005]  
BBCiHull – Strategic Implications [TVResearch for BBC:2003]  
The BBC : Public Service Provider, Commercial Competitor [Hull Daily Mail:2006]

*British Screen Advisory Council*

Platforms to deliver ‘Next Generation’ services [BSAC internal:2006]  
Spectrum Management and Reform [BSAC internal:2006]

*Other*

BBC and Commercial Radio [Indepen:2006]  
Commercial Radio : In the Public Service [CRCA:2006]  
Annual review 2005 [CRCA]  
Corporate Responsibility and Public Value [CRCA:2006]  
Review of the BBC’s Royal Charter [Newspaper Society:2005]  
IPTV and Local TV [South West Screen internal briefing paper:2006]  
The Newspaper Industry : The Economist [August, 2006]

*Manchester Seminar papers*

Why Local TV? [Channel M:2005]  
The Promised Land – Future of TV outside London [Adrian Poole,BBC:2005]  
New Technology, New Markets [Richard Bradbury,BBC:2005]