April 2006

THE BBC LICENCE FEE BID:
What does the public think?

An Independent Report by Professor Patrick Barwise
(London Business School)
for the BBC Board of Governors

BBC GOVERNANCE UNIT

The BBC published its case for the next licence fee settlement in October 2005. This followed publication of Building Public Value – the BBC's contribution to the debate about Charter renewal – and the Government's Green Paper which outlined its expectations of the BBC, informed by its own research of public opinion.

BBC Chairman, Michael Grade said then that: "Our document Building Public Value outlined the BBC's vision for serving the public in the digital age. The Government's subsequent Green Paper endorsed and refined that vision after consultation with the public. This bid has been thoroughly and independently scrutinised by the Governors. We commend it to Government as an efficient business plan designed to meet licence payers' expectations at the lowest cost."

In January 2006, the Board of Governors commissioned Professor Patrick Barwise to carry out further research to provide them with an up-to-date view of what licence fee payers think about the BBC's proposals for the next Charter period, following publication of the BBC's licence fee bid. The Governors wanted to satisfy themselves that they had the best understanding of licence fee payers' opinions before the final stages of the licence fee settlement process. Furthermore, the Governors wanted to understand licence fee payers' reaction to the Government's plan to fund targeted help via the licence fee.

The following report is entirely the work of Professor Patrick Barwise. His comments, conclusions and recommendations are his own and should be attributed only to him.

This report, together with the other research referred to, is available online at: www.bbcgovernors.co.uk

The earlier research by Human Capital and MORI – referred to throughout this report – was first published in October 2004 and October 2005 respectively and has been available online since at www.bbc.co.uk

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EXECUTIVE SUMMARY

The Brief

This report was commissioned by the BBC Governors, following the launch of the BBC's licence fee bid. It brings together, and draws conclusions from, new and earlier research. The report addresses three issues:

1. The likely reaction of licence fee payers to a licence fee rising to £150 (in 2005 pounds) in 2013/14, as proposed in the BBC's bid.
2. Licence fee payers' responses (as both consumers and citizens) to the new investment proposals in the bid.
3. Public reactions to the Government proposal to use the licence fee to fund targeted help for vulnerable citizens during digital switchover.

The Research

In addressing these issues, I have drawn on four research studies:

- A May 2004 study on the public's willingness to pay for the BBC conducted for BBC management by Human Capital [(1)].
- A March 2005 survey by MORI, also for BBC management, on initial public reactions to the new services proposed in the BBC's Building Public Value [(3)].
- A March 2006 citizen's forum on how audiences prioritise resource allocation within (a) existing BBC services (b) proposed new services, and (c) a combination of existing and new. This was conducted by Opinion Leader Research (OLR) for the BBC Governance Unit [(5)].
- A March 2006 Omnibus survey on public reactions to the Government's "targeted help" proposal, conducted by BMRB for the BBC Governance Unit [(6)].

Structure of the Report

The report is in six sections.

Section 1 introduces the brief and the research, and gives a "health warning" about what market research can and cannot tell us: transparent decisions informed by research are better than opaque, seat-of-the-pants decisions, but we need to be clear about the limitations of even the best research.

Section 2 uses the Human Capital results to give an initial answer on the first issue: the public's likely reaction to a £150 licence fee in 2013/14.

Section 3 draws on the MORI survey and part of the OLR forum to discuss people's initial responses to the proposed new services.

Section 4 reviews the main results from the OLR forum on resource allocation. These provide further insights into how the public values the main proposed new services relative to each other and relative to existing services.

Section 5 addresses the issue of targeted help both directly, drawing on the BMRB omnibus survey, and then referring back to the Human Capital results to explore the likely impact on the public's overall willingness to pay for the BBC.

Section 6 gives my conclusions and recommendations, which are as follows.

- **Likely Reaction to a £150 Licence Fee in 2013/14**
  The proportion of people saying they would be willing to pay the licence fee rather than lose the BBC's services falls steadily as the hypothetical price increases. There is no evidence of a sudden "tipping point" above which willingness to pay would drop dramatically.

  On this basis, my broad-brush projections are that the percentage of people willing to pay a £150 licence fee in 2013/14, as citizens and consumers, would be as follows for (a) existing BBC services and (b) the combination of existing and new services:

% "Willing to Pay" [a]	**2004**	**2013/14**	**2013/14**
Licence fee (2005 pounds)	£120	£150	£150
Services	(a) Existing	(a) Existing	(b) Existing + New
Citizens	80%	70%	75%
Consumers	75%	65%	70%

[a] As measured by Human Capital (May 2004)

There is of course a lot of uncertainty around these projections. The main factor influencing the public's willingness to pay for the BBC will be the perceived quality of its programmes, especially on its main TV channels. Other factors include the perceived quality and value for money of competitors' programmes, consumers' disposable incomes, how successfully the BBC communicates its offerings, and (last and possibly least) the perceived quality of the new services.

- Responses to Proposed New Services

  Both the March 2005 MORI survey and the March 2006 OLR citizens' forum suggest strong public support for the BBC's role in building digital Britain by investing in infrastructure and new services.

  Based on the brief descriptions of the proposed new services in the MORI survey, a clear majority of people expect them to be of high quality and distinctive and feel that the BBC should proceed with all or almost all of the proposals.

  Further, when the OLR forum participants were asked to allocate resources across the combination of existing and new services, they on average chose to reduce the resources for existing services in order to increase the investment in new services. I do not believe that the results are sufficiently reliable to give an accurate quantitative measure of public value, but they do show that the perceived value of the new services is substantial.

  In particular, both on demand TV and radio (7-day catch up) and the open archive were valued highly in both studies and from both a consumer and citizenship perspective. Local TV news was highly valued in the MORI survey but less in the OLR forum, perhaps because the latter was conducted in London. Other services valued significantly by the public as consumers and/or citizens included better navigation, the creative archive, active engagement, content for young teenagers, and learning support for 14-18 year olds.

  For the BBC these are encouraging initial responses but, at least for the main proposals, more market research will be needed as input to their public value tests, preferably including a detailed demonstration (eg from a pilot study) to ensure that the participants understand the service as fully as possible. For instance, it is important that they understand that in the immediate term, for most people 7-day catch up and the open archive are broadband PC-based applications, not TV-based like Sky+. This may significantly affect the results of the research.

- Willingness to Pay for Targeted Help to Support Digital Switchover

  When asked directly, almost 50% of respondents oppose the Government increasing the licence fee to pay for targeted help. This occurs whether asked as a matter of principle or in the context of the level of increase likely to be needed. The response is not very price sensitive.

  In the context of the overall licence fee, however, the required increase (of the order of £5/year for six years) is relatively small. My rough projection is that only about 2% of licence fee payers would switch from willing-to-pay to unwilling-to-pay as a result of this increase. If the Government proceeds with this proposal, the resulting increase will not be the straw that breaks the licence fee's back.

- Recommendations and Concluding Comment

  The report includes a number of rather detailed recommendations about future research on, and communication to, the public.

  It concludes with a brief comment on the overwhelmingly positive "bigger picture" which consistently emerges from the various research studies on specific consumer/citizen views and preferences, especially when the public is shown the practical policy options and given enough time and information to give a considered response.

  A particular case in point was the March 2006 OLR citizens' forum. At the start of the day, the level of approval for the BBC was an impressive 86%. Remarkably, in the course of the day, the approval level increased to 93% as the participants learned more about the range of BBC services, their role in people's lives, and the challenge of managing them in a complex, competitive, and fast-changing market.

  In conclusion, the research demonstrates a high level of support for the BBC, its role in driving digital Britain, and most of its proposed new services, and a willingness to pay a licence fee of £150 (in 2005 prices) by 2013/14 in order to fund it.

1. INTRODUCTION

The Brief

At their meeting on 18 January 2006, the BBC Governors requested further research, now that the BBC's licence fee bid had been made public, on what licence fee payers think about the BBC's proposals for the next Charter period. They asked me to supervise this work (to ensure independence from BBC management) and to write this report bringing together, and drawing conclusions from, this and earlier relevant research.

Within this broad brief, I was asked to address the following specific issues:

- *What would be the reaction of licence fee payers to paying £150.50 for a licence (this being the level to which the licence fee would rise as set out in the BBC's bid if one removes the effect of RPI and ignores the targeted help supplement)?*
  - *For existing BBC services*
  - *For an enhanced service offering (as set out in the BBC's licence fee bid)*
- *What do licence fee payers think of the BBC's new investment proposals for the next Charter as set out in the BBC's licence fee bid?*
  - *How do they value the proposals as consumers?*
  - *How do they value the proposals as citizens?*
  - *How do they value the proposals against the BBC's existing services (ie how consumers might prioritise licence fee spend in a resource-rationed scenario)*
- *What do licence fee payers think about the proposals to increase the licence fee to pay for targeted help for digital switchover?*
  - *How price sensitive are their opinions on this?*

Where possible in the time available, the report should also draw out any conclusions that can be made as to the differences in opinion between different types of licence fee payer (for example, low approvers versus high approvers, those with existing digital access versus those without etc).

In responding to this brief, I have benefited from the excellent support of the BBC Governance Unit, from some early discussions with PA Management Consultants, who helped me get up to speed on some of the specifics of the bid and the supporting research, and from an initial re-analysis by Human Capital of their 2004 study on the value of the BBC.

The Research

The BBC's bid draws mainly on two pieces of prior research commissioned by BBC management:

(a) A major study on the public's willingness to pay for the BBC as it then existed, conducted by Human Capital in May 2004(1) after an extensive programme of qualitative and pilot research. I was already familiar with this work, partly because the researchers discussed it, as it developed, with relevant experts at Ofcom (including myself as an external advisor to Ofcom), partly because I was closely involved in the design of a much earlier London Business School study on the value of the BBC, which used a similar methodology (Ehrenberg and Mills, 1990).(2)

(b) A March 2005 MORI survey(3) of UK adults' attitudes towards the new services proposed in the BBC's "Building Public Value"(4). This study provided much of the initial research support for the BBC's licence fee bid.

For this project, the BBC Governance Unit has commissioned two further studies:

(c) A one-day "citizens' forum" conducted on 8 March 2006 by Opinion Leader Research (OLR)(5). The aim was to explore how audiences prioritise resource allocation within (a) existing services, (b) proposed new services, and (c) a combination of existing and new.

(d) In September 2005, following the BBC submission, the Government announced that vulnerable groups would be given financial assistance with the cost of digital switchover and that this "targeted help" would be funded through the licence fee rather than general taxation. For this report, an Omnibus survey(6) was conducted by BMRB in March 2006 to research public reactions to this proposal, both in principle and in response to possible specific licence fee increases to pay for it.

Health Warning: the Limitations of Market Research

With growing demands for accountability, public policy, management, and regulation are becoming more evidence-based. Market research forms an increasing part of the evidence used – rightly, in my view, especially in the context of the BBC and the compulsory licence fee.

At the same time, it is important to be realistic about what market research can and cannot tell us. For instance, even with good question wording, consumers cannot reliably tell us:

- how much they will use and value a radically new product or service with which they are unfamiliar, or even quality improvements in an existing service such as BBC1,
- their willingness to pay for the BBC in seven or eight years' time.

Of course, if the questions are ambiguous, biased, or misleading, the results are even less reliable. A classic example is whether the BBC should be funded by advertising instead of the licence fee. If respondents are asked this with no further explanation, most will say yes, assuming that the question is whether they would put up with commercial breaks in BBC programmes in order to save the cost of the licence fee, everything else being equal. But this seriously misrepresents the actual choice. If the BBC sold as much advertising airtime per hour as commercial TV and radio, the price (cost per thousand viewers/listeners) would drop hugely and the programme budgets for all free-to-air broadcasters would be reduced by perhaps 30% for TV and even more for radio. Viewers and listeners would either have to live with significantly lower quality programmes or pay substantially more than the licence fee for subscriptions to regain the quality they enjoyed before.

Researching the price someone is willing to pay for something raises the additional problem that respondents may treat the process as a kind of negotiation and therefore understate how much they would be willing to pay.

Measuring public value and preferences is even harder in the context of "citizenship" issues, ie benefits to society rather than to the respondent as an individual consumer(7).

More generally, we need a better understanding of the psychology of both consumer and citizen preference and of the real-world deviations in choice from classical economic assumptions. Consider a topical example, pensions. Under classical assumptions, *"Tick this box to join the company pension scheme"* should produce the same outcome as *"Tick this box if you do NOT wish to join the company pension scheme"*. In practice, the percentage of joiners might be 40% for the first and 90% for the second. These, sometimes large, deviations come under the general heading of behavioural economics(8).

Despite the limitations of market research, it can of course greatly help us develop products, services, and policies which match people's preferences: judgements informed by this evidence are likely to be better than judgements without it. This health warning is a plea for realism and openness, not for a return to opaque, seat-of-the-pants decision-making.

Structure of the Report

In the following sections, I first review the evidence, mainly from the Human Capital study, on the public's likely reaction to a licence fee growing to £150 (in constant 2005 pounds) by 2013/14. I then explore the evidence from both MORI and OLR on initial responses to the proposed new services. I next report the OLR results on people's resource allocation preferences among a combination of both existing and proposed new services.

These three sections ignore the impact of funding targeted help through the licence fee, which I address in Section 5, based on the BMRB Omnibus survey and the implications of the earlier Human Capital study on overall willingness to pay.

Finally, I give my conclusions and recommendations.

Note that this report focuses entirely on actual and projected public reactions to various aspects of the BBC's (and, in the case of targeted help, the Government's) proposals. The costs of the proposals fall outside my brief.

2. LIKELY REACTION TO A £150 LICENCE FEE IN 2013/14 (HUMAN CAPITAL)

The Human Capital Study (May 2004)

The 2004 Human Capital study[1] used four different methods of measuring the value of the BBC[9]. Two were "top-down" (asking for perceptions of the BBC as a whole), the other two were "bottom-up" (building the total value as the sum of the values of individual services). For each of these broad approaches, one method estimated the "consumer value" (ie for the individual household), the other, based on a separate sample, estimated the "total value" (the value for society as a whole as well as for the individual household). Overall, I regard this study as providing the most reliable estimate to-date of the value of the BBC[10].

As expected, the average estimated value was somewhat higher for the bottom-up than for the top-down methods (since bottom-up methods draw attention to the range of services) and for total than for consumer value (since the total also includes the value for society as a whole, although this is a very rough and ready way of estimating this). But the general picture is one of great consistency (Table 2.1):

Table 2.1 Average Value of the BBC in May 2004 (£/month) (Source: Human Capital, May 2004[1])

Average Value (£/month)	Consumer value	Total value
Top-down	£18.35	£20.70
Bottom-up	£18.70	£23.50
Average (rounded)	£18.50	£22.00

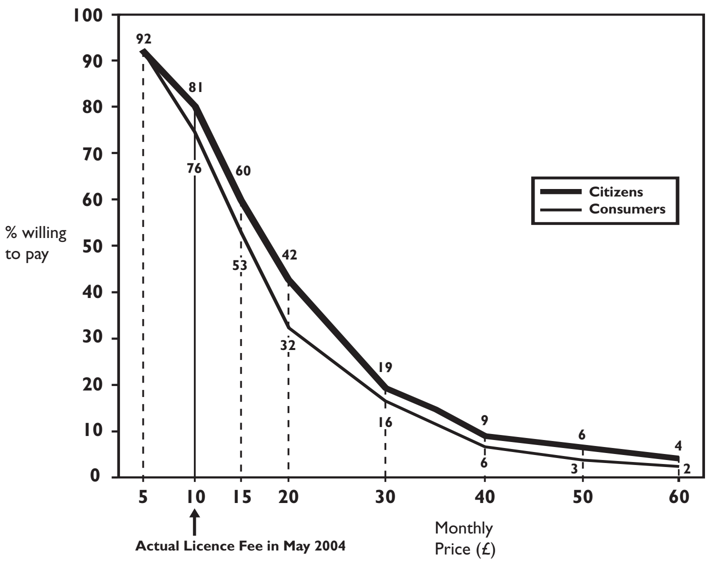
At the time of the study, the annual licence fee was £121, equivalent to just over £10 per month. On average, according to Human Capital, viewers and listeners would have been willing to pay around £18.50 per month as individual consumers and around £22 per month as citizens in order to retain the BBC.

Individual Differences in Willingness to Pay

Behind these averages, however, there was wide variation between individuals. A few claimed that, given the choice, they would prefer to lose the BBC's services and save the licence fee. At the other extreme, an equal number said that, if forced, they would be willing to pay three or four times the level of the licence fee to retain the BBC's services.

Figure 2.1 shows the percentage of people willing to pay different monthly prices for the BBC as either individual consumers or as citizens (total value), based on the two top-down methods. Note that the percentages are slightly higher for the two bottom-up approaches, especially for total value (Table 2.1). To this extent (again, especially for total/citizenship value), the results in Figure 2.1 and my subsequent analysis are conservative.

Figure 2.1 Percentage of People Willing to Pay for the BBC at Different Prices as Citizens and Consumers (Monthly Price, May 2004) (Source: Human Capital, May 2004[1])



These results show that, in May 2004, 76% of people said that they would be willing to pay at least £10 per month (the then licence fee) as consumers and 81% (based on a separate sample) said they would do so as citizens. This reflects a very high level of public support, especially given the frequent criticisms of the BBC and the licence fee over many years by those hostile to it, including some of its competitors with considerable media power.

As just noted, however, despite the high valuation of the BBC by most respondents, a significant minority (24% as individual consumers and 19% as citizens) claimed that, given the choice, they would prefer to forgo the BBC and save the licence fee. I recommend that further research be conducted on this minority, which presumably includes a mixture of people who:

- genuinely find the cost of the licence fee a burden
- are in households that hardly use BBC services
- underestimate their households' use of BBC services
- disagree with the licence fee as a matter of principle
- misunderstood the question (eg some pay TV subscribers may believe that their subscription includes a payment for the BBC channels)
- regard the exercise as a price negotiation

or some combination of these. This is a researchable issue, with a range of possible policy implications.

I also recommend that the public's valuation of the BBC be measured at a regular interval of, say, three years. With digital technology, it may also be possible to measure actual rather than claimed willingness to pay (or forgo) BBC services, at least for BBC TV, which accounts for most of the cost and perceived value of the BBC. This option merits some basic R&D.

Likely Reaction to a £150 Licence Fee in 2013/14

The BBC's bid (excluding targeted help) is for annual licence fee increases of RPI+2.3% starting in 2007. This would make the licence fee £150.50 in 2013/14 in constant 2005 pounds. Assuming 2004/05 inflation of 2% pa, this is equivalent to £147.55 in constant 2004 pounds, ie £12.30 per month.

Linearly interpolating this figure onto Figure 2.1, just over 65% of consumers and just over 71% of citizens would have said in May 2004 that they would be willing to pay at least £12.30 per month for the then-existing BBC services.

These figures (65%, 71%) are a reasonable starting-point for estimating the public's willingness to pay £150 (in constant 2005 pounds) in 2013/14 for the BBC services as they existed in May 2004.

There are two main reasons why willingness to pay for the existing services might be higher or lower in 2013/14 than in 2004:

(a) Disposable incomes are likely to continue increasing ahead of inflation for most households, and the proportion of this income spent on leisure and entertainment is also likely to keep growing. For most households, £150 (in 2005 pounds) will therefore represent a significantly smaller proportion of disposable income – and, especially, of expenditure on leisure and entertainment – in 2013/14 than when Human Capital did its study in May 2004. This is likely to increase willingness to pay.

(b) Usage of existing BBC services is likely to be somewhat lower in 2013/14, because increasing competition will reduce the BBC's share of viewing and listening. The total amount of TV and radio usage per household will also probably decrease slightly because of more time being spent on other activities, including the internet, and because of a slight reduction in the average number of people per household.

    Up to this point, the BBC has maintained its share of TV viewing remarkably well (and much better than ITV) while actually increasing its share of radio listening and building substantial usage online. How popular its existing services will be in 2013/14 will itself partly depend on the level of the licence fee and how much of it is invested in content for these existing services, as well as on many other factors. The quality of BBC programmes, relative to those of other broadcasters, will still be the main determinant of the perceived value of its services.

At this stage, we have no clear basis for estimating whether (a) will or will not outweigh (b). My best estimate is therefore that about 65% of people in 2013/14 would be willing to pay more than £150 (in 2005 pounds) for the existing BBC services as consumers, and 70% as citizens – obviously, depending on the quality of the services at that time.

However, the proposed licence fee increases (RPI+2.3% pa) are intended to cover a combination of:
(i) investment in quality content for existing services
(ii) "Out of London", especially moving production and services to Manchester
(iii) digital infrastructure and education/marketing to drive digital switchover
(iv) new digital services

Of these, (i) relates to existing services while (ii) and (iii) do not relate in a simple way to the public's willingness to pay the licence fee. (iv), however, does relate to proposed additional services whose justification is largely based on their likely perceived value to the public as consumers and citizens. A key issue is therefore the public's responses to these proposed new services, as I now discuss.

3. RESPONSES TO PROPOSED NEW SERVICES (MORI, OLR)

MORI Survey (March 2005)

In March 2005, MORI[(3)] conducted face-to-face interviews with 1,640 adults to give an initial assessment of the public's response to the BBC's proposals in Building Public Value.

The survey focused mainly on the reactions to ten new service concepts, including both digital and local services and some new content. For each proposed new service, the study explored:

- respondents' *personal degree of interest* (a measure of consumer impact)
- to what extent they felt that *the BBC should invest in the service for societal reasons* (impact on society)
- how likely they would be to *use the service*, assuming it was easy to use and free (reach)
- the extent to which they felt that the service would be of *high quality and distinctive*
- whether they thought it would be *worth the BBC spending some licence fee money on the service*, and
- *how much of a 100 pence pot* they would allocate to the service within the list of ten, from both a personal and a societal viewpoint.

The survey then asked a series of questions about how much respondents would be *willing to pay for the BBC including the new services* (as both consumers and citizens) and how important it was, in their view, for the BBC to make digital services universally available by *building out the infrastructure and raising awareness.*

New Services Explored by MORI

The ten proposed new services were described as follows (with a short label in brackets at the end similar to the label used internally at the BBC at that time):

A *"You could watch any BBC TV programme you had missed, or wished to see again, at any time you wish, in the 7 days since it was broadcast"* (7-day catch up)

B *"Each week the BBC will make available a different range of programmes from its extensive archive for you to watch at any time you wish"* (Open archive)

C *"More original UK services and television programmes from the BBC for young teenagers, including drama, comedy, entertainment and education"* (Content for young teenagers)

D *"The BBC will provide new learning opportunities for 14 to 18 year olds to support what they are taught at school. This service will be delivered via internet, digital TV, mobiles and ultimately games consoles"* (Learning for 14-18 year olds)

E *"The BBC will make it easier to find BBC video, audio and other content that you might like to hear or see and giving you new suggestions based on the programmes you already like"* (Improved navigation)

F *"The BBC would make thousands of TV and radio extracts available and provide the tools and tuition to enable you and your friends to create, edit, re-mix, personalise and share your media clips for entertainment, school or work"* (Creative archive)

G *"The BBC will help you participate in activities you are interested in; informing you how to become more involved in the community, in issues that matter to you, in schools, in sporting activities, in music or drama"* (Active engagement)

H *"You could visit your local BBC centre or touring BBC bus and learn something new. The BBC will provide expert help and guidance about how to use the Internet and make TV and radio programmes or clips"* (Local learning)

I *"You could enjoy access to BBC services, programmes and events when you want, such as when out and about, via mobile phones, iPod-like devices or even on big screens"* (Mobile access)

J *"The BBC will make your local TV news programmes even more local to you, reflecting life in your area and providing serious coverage of stories that matter to you"* (Local TV news)

The MORI survey provides a very useful first step in evaluating the proposed new services as envisaged at the time. It includes some smaller proposals (eg active engagement and local learning), with limited impact on the overall funding requirement, alongside bigger proposals such as 7-day catch up and local TV news, with major cost and/or potential market impact implications. This made sense for an initial evaluation, but in the context of the overall bid, we now need to focus mostly on the more important proposals.

Inevitably, we must be cautious in interpreting the public's initial reactions to these innovative new services, especially given that this was a large-sample survey in which the service descriptions were limited to just one or two sentences and there were no experts on hand to clarify the proposals. For instance, the descriptions of 7-day catch up and the open archive do not make it clear that in the immediate term, most viewers would have to watch them on a broadband-connected PC rather than (as with a PVR, for instance) more conveniently on their TV set. It is unclear how well respondents understood the proposed new services at this detailed level. Nevertheless, the results provide a number of extremely helpful insights.

Initial Responses to the Proposed New Services (MORI)

Table 3.1 summarises the results for three questions about the respondents' reactions to the new service concepts, assuming each service were easy to use and available at no extra cost, plus a fourth question about perceived quality and distinctiveness. With this type of survey, the wording matters, so I quote each question almost in full below the table.

The proposed services are ranked in the table in the order of the responses to the first, rather general, question about how interesting each service concept sounded, Column (1). The second column gives the % saying they would be very or fairly likely to use the service *"assuming it were available very shortly, very easy to use – at no extra cost to you"*.

Column (3) gives responses to the "citizenship" question about which of the services the BBC should provide *"for the greater good of others, society, and the country as a whole"*.

Finally, Column (4) gives results for the question about the extent to which service concept was seen as "high quality and distinctive".

Table 3.1: Responses to New Service Concepts If "Easy to Use at No Extra Cost" (Source: MORI, March 2005[3])

Service Concept	(1) Very/Fairly Interesting [a] %	(2) Very/Fairly Likely to Use [b] %	(3) BBC Should Definitely/Probably Do [c] %	(4) Very/Fairly High Quality/Distinctive [d] %
7-day catch up (A)	80	76	78	68
Local TV news (J)	79	72	82	71
Open archive (B)	74	68	76	68
Improved navigation (E)	61	42	64	61
Active engagement (G)	57	43	70	66
Content for young teens (C)	54	39	81	62
Learning for 14-18s (D)	52	34	84	67
Local learning (H)	42	28	58	58
Creative archive (F)	40	32	54	66
Mobile access (I)	32	25	47	56
Average	57	46	69	64

a *"How interesting and appealing would you and your household find a service that, at no extra cost, meant…"*

b *"How likely would you be to actually use each service – assuming it were available very shortly, very easy to use – at no extra cost to you?"*

c *"Which of these do you feel the BBC should do, for the greater good of others, society and the country as a whole,…?"*

d *"Please … tell me … regardless of whether you personally find them interesting, the extent to which you feel each is high quality and distinctive? By distinctive I mean 'original' and 'different'."*

My interpretation of these results is as follows:

(a) The first two questions ("interesting" and "likely to use") are measuring much the same thing, the second being a bit tougher and probably more valid as a measure of expected consumer value and therefore of the services' likely contribution to people's willingness to pay the licence fee as consumers.

(b) The top three proposed services (7-day catch up, local TV news, and open archive) received much more positive consumer responses than the rest, especially on "likely to use".

(c) At the other extreme, the consumer responses to the bottom three service concepts (local learning, creative archive, and mobile access) were low on both measures, especially "likely to use".

(d) Column (3) shows that, as citizens, a clear majority of respondents felt that the BBC should launch most of the services. The average was 69% across all ten proposals and as much as 76% for the top seven. Especially striking is the high level of citizen support for the two proposals aimed at teenagers, (content for young teens and new learning opportunities for 14-18 year olds) at 81% and 84% respectively.

(e) The combination of Columns (2) and (3) suggest that, as both consumers and, especially, citizens, licence fee payers would place significant value on all of the proposed services except perhaps the bottom three. The top three – subject to my point about how well respondents understood the concepts – score well on both criteria. Improved navigation also scores fairly well but is hard for respondents to evaluate on the basis of a one-sentence description. Similarly for active engagement, where the responses may reflect a degree of wishful thinking akin to the alleged surge in gym memberships every January. As noted, the two services aimed at teenagers would create limited consumer value but high citizenship value.

(f) Finally, Column (4) in the table suggests that the public would expect any service launched by the BBC to be "high quality and distinctive". The responses vary little between the services and are doubtless a general reflection of the public's high trust in the BBC. In general, distinctiveness is not of direct interest to consumers (it is the BBC's competitors who want its services to be distinctive) but quality certainly is[11].

Allocating Resources to the Proposed New Services (MORI)

The MORI study also asked three questions about the extent to which the BBC should allocate resources to each proposed service. Table 3.2 summarises the results, with the services listed in the same order as in Table 3.1

Column (1) shows which services respondents felt "would be worth spending some licence fee money on". Columns (2) and (3) are based on asking respondents to imagine that £1 worth of the current monthly licence fee of £10 could be spent on providing the new services: how, then, would they allocate 100p across the proposed services from a personal point of view (Column (2)) and then on behalf of society at large (Column (3))?

Table 3.2: Responses to New Service Concepts Allowing for Resource Costs/Constraints
(Source: MORI, March 2005[3])

Service Concept	(1) Worth it [a] %	(2) 'Personal' allocation [b] %	(3) 'Societal' allocation [c] %
7-day catch up (A)	64	18	14
Local TV news (J)	70	18	16
Open archive (B)	57	12	11
Improved navigation (E)	32	4	5
Active engagement (G)	52	9	9
Content for young teens (C)	62	11	13
Learning for 14-18s (D)	70	15	19
Local learning (H)	31	4	5
Creative archive (F)	35	5.5	5
Mobile access (I)	26	3.5	4
Average/Total	50	100%	100%

a *"Which [of these services] …would be worth the BBC spending some licence fee money on …?"*

b *"… imagine that £1 of the current monthly licence fee of £10 could be spent providing all these services. I would like you to divide up this £1, as 100 pence, between each of the services … Firstly, … if you were choosing from a personal point of view?"*

c *"And how would you allocate 100 pence if you were choosing on behalf of society at large?"*

While it is useful to explore the extent to which introducing the idea of resource constraints leads to changes in people's responses to the proposed services, these questions are difficult to research and stretch the method – a simple, large-sample survey. Respondents will have had limited and variable understanding of the services themselves, as already noted, and little, if any knowledge of their incremental fixed and variable costs.

Nevertheless, the results in Table 3.2 are broadly in line with those in Table 3.1. The figures in Column (1) of Table 3.2 ("worth it") are consistently lower than those in Column (3) of Table 3.1 ("should definitely/probably do"), the average difference being 19 percentage points. Columns (2) and (3) of Table 3.2 are broadly consistent with the consumer and citizen results, respectively, in Table 3.1, although the results in Column (2) (despite the question wording) seem to reflect a mixture of consumer and citizen responses.

My conclusions (a) – (f) above still stand.

Value for Money (MORI)

The MORI survey went on to explore some aspects of the perceived value for money of the new services and the public's willingness to pay for them. The method used was to ask a series of questions based on *"… a hypothetical situation where you no longer have to pay the licence fee. However, if you wanted to receive any of the BBC's programmes or services, TV, radio, internet, etc, you would have to pay a monthly subscription instead"* [emphases in original]. The first such question was as follows:

"Bearing in mind the current licence fee is around £10 a month per household, please tell me how much you and your household would be prepared to pay a month for everything that the BBC offers now, plus a package that included all these new services we've just been discussing" [emphases in original]. Table 3.3 gives the results for this question.

Table 3.3 'Personal Value' Subscription: Existing and New Services (£/month) (Source: MORI, March 2005)

Subscription	%
Less than £10.00 a month	23
£10.00	28
£10.50	2
£11.00	5
£11.50	3
£12.00	11
£12.50	8
£13.00	7
More than £13.00 a month	10
Don't know	4
Total	100%

This is not, in my view, the best way of measuring willingness to pay:

- It is very strongly "anchored" on the current level of the licence fee.
- The stated amounts are limited to a narrow range of £10 - £13, substantially less than the amount we know most consumers would be willing-to-pay for the existing BBC services even without the new services (see Figure 2.1).

We know from the Human Capital study, which used a much wider stated range of prices, that about 60% of people would pay more than £13.00 per month for the existing BBC services. But according to the MORI survey, only 10% of people would do so for the existing and new services combined.

The MORI wording was chosen deliberately, for reasons discussed shortly. The effect, however, was to underestimate willingness to pay, by a wide margin. Further evidence that willingness to pay is much higher than suggested by the results in Table 3.3 is provided by the responses to the next but one question in the same MORI survey. Respondents were asked a "national voting" question about whether, from the viewpoint of the value to society and the country as a whole, they would vote to close down the BBC and stop charging the licence fee or continue with the BBC and the licence fee, including the new services. The results were:

Close down the BBC	7%
Continue with the BBC, all new services, and the licence fee	85%
Neither/other/don't know	8%
	100%

That is, 85% would vote for continuing with the BBC, rising to 92% [(ie 85 ÷ (7 + 85)] of those giving a definite answer. This is even higher than the 81% giving the equivalent response for the national voting (ie citizen, top-down) question at £10/month in the 2004 Human Capital study, perhaps reflecting the perceived incremental value of the proposed new services.

Assessing the Incremental Value of the New Services

The wording in MORI's subscription questions was deliberately chosen to *"gauge the willingness to pay within a limited and realistic range these services would cost"* (12). The aim seems to have been to use this as a way of assessing the incremental value of the new services, by subtracting the value of the existing services (taken as equal to the current licence fee of £10/month) from the average perceived value of the combination of existing and new services.

This approach has several limitations:

(i) Where possible, it is inadvisable to estimate a small item as the difference between two hard-to-measure large items. It is especially inadvisable if different methods (with uncorrelated errors) are used to estimate each of the two large items.

(ii) The average perceived value of existing services is much higher than £10/month, as discussed in Section 2.

(iii) Using a method which underestimates the perceived value of the combined existing and new services, in order to compensate for (ii), presumes that the two resulting errors precisely cancel out. This is extremely unlikely.

(iv) The weightings used to convert the figures in Table 3.3 (and similar results for 'citizen' willingness to pay for new services, and – based on separate questions – for both 'consumer' and 'citizen' willingness to pay for better programmes) are unreliable.

On the final point, MORI weighted "Less than £10.00 a month" (and also "Don't know") as £10 and "More than £13 a month" as £13. On this basis, they estimated the average 'consumer' willingness to pay for the combined existing and new services as £11.01/month (ie 23% × £10 plus 28% × £10 plus 2% × £10.50, etc, see Table 3.3).

We have no reliable way of determining a valid weight to use for those responding "less than £10" or "more than £13". For instance, with a weighting of £5 for the former and £18 for the latter (and excluding "Don't knows"), the weighted average goes down from MORI's £11.01 to £10.51.

The reason this matters is that the BBC, in its submission, has used MORI's data to estimate the total incremental value of the new services as £1.01/month per household (ie £11.01 minus the existing licence fee, as stated in the MORI survey, £10). If the £11.01 goes down to £10.51 – merely because of a change in the weightings – the estimated incremental value is virtually halved to 51p/month per household.

The BBC submission goes on to use the percentage resource allocations from Table 3.2, Column (2), to allocate this estimated consumer value across the proposed new services. The resulting estimates for the average consumer (and, similarly, citizen) value of each service are then compared with the assumed incremental cost, to support the argument that the proposed new services would deliver public value over and above the cost of providing them. While this may well be true of some, many, most, or all of the proposed services, the support provided by the results of the March 2005 MORI survey should in my view be seen as no more than an initial indication.

I assume that each of the main proposals will be subject to a full public value test. Meanwhile, the March 2006 OLR citizens' forum was designed to take the evaluation of the main proposed new services to the next stage, as I now discuss.

OLR Citizens' Forum (March 2006)

In order to explore responses to the main new service proposals in more detail, and to evaluate them against existing services, the BBC Governance Unit commissioned Opinion Leader Research (OLR[5]) to conduct a one-day citizens' forum in March 2006. This was a year later than the MORI survey, and the new service proposals had evolved significantly between the two studies.

The 100 participants were all from the London area but were otherwise broadly representative of the UK population in terms of (a) demographics, (b) approval/disapproval of the BBC, (c) internet usage, and (d) digital TV usage.

The format of the day included a mix of plenary and smaller table discussions. In the table discussions, participants were in groups of ten, each with a facilitator, working to an agreed framework. In the plenary sessions, they heard general briefings and feedback on the results of their own and other groups' discussions.

Each participant also had an individual voting keypad for a number of voting and resource allocation tasks. Results of each vote were relayed back to participants during the day, allowing for further reflection and discussion.

New Services Explored by OLR

The OLR forum explored the three main services covered in the MORI survey (7-day catch up, local TV news, and open archive) and one other (creative archive), plus high definition television (HDTV) and the investment in digital infrastructure. The following six labels were used:

- *On Demand BBC TV and Radio* (roughly corresponding to 7-day catch up)
- *Open archive*
- *Locate Your Own (Archive)* (Creative archive)
- *Local TV*
- *High Definition Television* (HDTV)
- *Digital Infrastructure*

One advantage of a deliberative workshop such as the OLR citizens' forum, in comparison with a large-sample survey, is that the participants can be given a fuller explanation of each service and can ask for clarification at any stage, both from the facilitators and from experts attending the event. In this case, the services were initially introduced via a presentation by members of the BBC Governance Unit, supported by printed descriptions.

I am confident that the forum participants had a significantly better understanding than the earlier MORI respondents of what each service would involve. I still believe, however, that some may not have fully understood the details, eg that the "on demand" and archive TV and radio services would be delivered primarily via broadband PCs.

Prioritisation Among Proposed New Services

One exercise asked participants to allocate 20 units across the six new services, having been shown, in simplified form, the relative share of the BBC's proposed total spend on new services (also totalling 20 units) for each service. In planning their allocations, participants used the template reproduced in Figure 3.1.

Fig 3.1Prioritising Allocation On New BBC Services (Source: OLR, March 2006[5])

BBC Service	Current Projected Allocation (in units)	What You Think The BBC Should Allocate (in units)
1. On Demand TV and Radio	5	
2. Open Archive	2	
3. Create your own (archive)	1	
4. Local TV	3	
5. High definition television (HDTV)	2	
6. Digital Infrastructure	7	
TOTAL	20	Please check your units add up to 20

This method strongly anchors participants' allocations to the BBC's initial projected allocations, since participants very reasonably assume that there are good reasons for the BBC's initial allocation. As a way of evaluating perceived value, it is the *changes* from the initial allocations that tell us most. Table 3.4 gives the results of this exercise, with the services ranked by the BBC's projected allocation.

Table 3.4 Initial Prioritisation Among new Services (Source: OLR, March 2006[5])

Service	BBC's Projected Allocation	Participants' Average Allocation	Difference Units (%)
Digital infrastructure	7	6.8	-0.2 (-3%)
On demand TV and radio	5	5.6	+0.6 (+12%)
Local TV	3	2.0	-1.0 (-33%)
Open archive	2	2.5	+0.5 (+25%)
HDTV	2	1.8	-0.2 (-10%)
Create your own (archive)	1	1.0	- -
Total	20	20	- -

The results in Table 3.4 are suggestive, but need to be interpreted with care:

- There was some group and plenary discussion of digital infrastructure. The participants generally concluded (rightly, in broad terms) that one either does or does not provide near-universal national coverage. They were therefore reluctant to increase or decrease the allocation for this item, but saw it as essential for digital switchover:

  "Digital infrastructure is a priority to make sure everyone has access"

- Participants increased the resources allocated to on demand TV and radio and the open archive:

  "Great. I work nights and I would download something the next day. Setting the video is too much hassle" (On demand TV and radio)

  "I love looking back at the past and for me this would be a rich source" (Open archive)

I believe that these results do reflect significant potential public value, but less, in the short term, than the numbers and comments suggest, because of some misunderstanding of their PC-based delivery. The popularity of Sky+ among its users indicates that an easy-to-use TV-based catch up service is highly valued by consumers (even though most viewing in Sky+ homes is still of live TV).

- The significant (average 33%) reduction in the resources allocated to the proposed new local TV service may partly reflect the fact that the research was conducted in London. In a different exercise discussed in Section 4, the same participants also indicated a preference for shifting resources away from existing local, regional, and national (ie in Scotland, Wales, and Northern Ireland) services. However, some of the group discussion also suggested that local TV would be of low quality and limited interest:

  "Local TV is expensive and it sounds rubbish. All it does is fill space and airtime"

- The 10% reduction in resources for HDTV reflected a feeling that, in the short term, it should be a low priority as it will be accessible only by the minority with HD equipment:

  "It will only be for the rich who can afford new sets"

  The HD story is complex. Public perceptions are likely to change – and become more positive – after BSkyB launches its HDTV service later this year.

At a qualitative level, there was strong support for the BBC's role in building a digital Britain, including developing infrastructure and adding new services. Participants felt that the BBC has historically been a pioneer and leader and should remain at the cutting edge of the transition to digital.

The views expressed were consistent with the Government's vision for the BBC to be a "trusted guide" through the complexity and potential pitfalls of digital technology. As part of this role, participants would expect the BBC both to communicate the changes and to ensure universal access for the new services.

At the same time, there was a feeling that the BBC should not allow its digital plans to divert it from its primary purpose of creating programmes which set the standard for quality and range.

In line with this concern, the workshop explored the new services in the broader context of resource allocation across the whole BBC, both existing and proposed new services. The following section discusses the results.

4. RESOURCE ALLOCATION AMONG EXISTING AND NEW SERVICES (OLR)

A Better Way to Estimate the Value of the New Services

Any organisation investing in new products or services needs to evaluate the opportunities against the alternative of investing more in its existing product line. In the case of the BBC, a further issue is that, by exploring licence fee payers' responses to proposed new services in the context of their responses to existing services, we can emphasise to them both the direct cost and the opportunity cost of the new services. This enables us to test the extent to which the response to a new service proposal changes when the public understands not only that it would not be a "free lunch" but also the approximate cost of that lunch relative to the cost of the familiar existing services.

Even better, because we already know from the Human Capital study the absolute perceived value of the existing services (subject to the qualifications already discussed), researching the value of new services relative to that of existing services can give us a reasonable estimate of the absolute perceived value of the new services:

$$\left(\begin{array}{c}\text{Absolute value}\\ \text{of new services}\end{array}\right) = \left(\begin{array}{c}\text{Absolute value of}\\ \text{existing services}\end{array}\right) \times \left(\begin{array}{c}\text{Value of new services relative}\\ \text{to value of existing services}\end{array}\right)$$

Of course, the validity of the estimate on the left-hand side of this equation totally depends on that of the two estimates on the right-hand side. Based on the Human Capital study discussed in Section 2 (see Table 2.1), I take the average perceived value of existing services as £20/month. The challenge is then to develop a good enough estimate of the second factor, the perceived value of the new services relative to the perceived value of the existing services.

The March 2006 OLR citizens' forum asked participants to prioritise resources within existing services, new services, and – crucially – the combination of the two. Further, as discussed in the previous section, this was in a context where participants had a better understanding of both the services themselves and their approximate relative cost than was possible in the MORI survey a year earlier.

The main disadvantage of this method (apart from its high cost) is that the sample size is relatively small – 100 people vs 1,640 for MORI. Other limitations are that the sample is drawn from a limited geographical area and that – as with focus groups – respondents can and do influence each other.

However, it is better to be roughly right than precisely wrong. As discussed in Section 3, the earlier MORI questions provided robust, statistically representative data on a number of – mostly positive – initial responses to the new product concepts. The MORI results tell us a lot about which proposals are more attractive in consumer terms and which are less so, and also which are seen as having substantial citizenship value even if they have little consumer value for the particular respondent. But responses to the later MORI questions do not provide very reliable estimates of the public value of these services. The method used here (combining the Human Capital and OLR results) is still broad brush but more reliable.

The OLR study also provided a number of other helpful insights, starting with insights about the relative perceived value of the *existing* BBC services, as I now discuss.

Prioritisation Among Existing BBC Services (OLR)

The first resource allocation exercise in the OLR forum was for existing services. Most participants were already familiar with most existing services, and those who were not were briefed by a presentation, a note, and discussion with other group members and their group facilitator. This exercise was used to stimulate discussion within the groups and to introduce both the concept and the mechanics (using electronic keypads) of resource allocation. 20 services were listed, with a brief description and a simplified relative cost, totalling 100 units.

Participants were asked how they would prioritise resource allocation among these existing services by redistributing the units allocated to each resource. They were asked to consider both the personal value of the service to themselves and their household, and the broader value to society. The responses should therefore be taken as comparable to those from the Human Capital research on total value and the MORI 'citizenship' questions. Table 4.1 shows the results (with network radio and digital TV and radio channels grouped together).

Table 4.1 Initial Prioritisation Among Existing Services (Source: OLR, March 2006[5])

Service	BBC's Current Allocation	Participants' Average Allocation	Difference Units (%)
BBC1	28	24.5	-3.5 (-13%)
BBC2	12	14.5	+2.5 (+21%)
Network radio [a]	17	16.4	-0.6 (-4%)
Local, regional, national [b]	11	9.9	-1.1 (-10%)
All analogue services	68	65.3[c]	-2.7[c] (-4%)
Digital TV channels	15	18.4	+3.4 (+23%)
Digital radio channels	8	6.7	-1.3 (-16%)
bbc.co.uk	4	4.6	+0.6 (+15%)
BBCi	3	3.0	- -
BBC Jam	2	2.2	+0.2 (+10%)
All digital services	32	34.9[c]	+2.9[c] (+ 9%)
Total	100	100	- -

[a] *Includes Sports Extra (digital)*
[b] *Local radio, regional TV, national services in Scotland, Wales, and N. Ireland*
[c] *Numbers do not add up due to rounding*

Again, the results should be interpreted with care, but the following points emerge:

(a) Encouragingly for the BBC, there is strong support for the existing digital services. Overall, participants chose to shift almost three units from analogue to digital services. The one proviso is that they did this by taking resources from BBC1, partly because it had the biggest budget (which it still had in their allocation), partly perhaps because they may have underestimated the extent of BBC1's dominance of BBC TV viewing and the high cost of content this requires (ie high cost per hour, still leading to a low cost per viewer hour), especially given the public's desire for fewer repeats. A citizens' forum devoted only to existing services would have spelt these issues out and almost certainly resulted in more resources being allocated to BBC1 than in this exercise.

(b) The single service receiving the largest absolute increase was BBC2. Participants regarded its lower budget (in comparison with BBC1) as somehow surprising and a bit unfair.

(c) Some resources were shifted away from network radio and, especially, digital radio. The latter may be partly because of unfamiliarity with the services. Radio is also a more segmented medium than television, so people tend to value only their favourite stations. It is also seen as cheaper, so there was a feeling that it might have greater scope for savings than television.

(d) The 10% resource cut for local, regional and national services may reflect the fact that this was a London sample.

(e) The participants chose to increase resources for the digital TV services by an average of 23% and for bbc.co.uk (ie BBC Online) by 15%. They also gave 10% more to BBC Jam (previously the "digital curriculum"), a free online educational service for 5-16 year olds. Apart from digital radio, the only digital service not given extra resource was BBCi, the interactive TV "red button" service. Some participants compared BBCi unfavourable with bbc.co.uk because of its slow response: [13]

"BBCi is a waste of time. It is fiddly and slow. I would rather get the information online."

The results for individual network radio, digital TV, and digital radio channels are shown in Table 4.2. The main subpattern is the emphasis on the more demanding digital TV channels BBC4, News 24, and BBC Parliament [14]. With network radio, the opposite was the case, with R2 left unchanged and slightly more resource being taken from R3 and R4 than from R1 and Five Live.

Table 4.2 Initial Prioritisation Among Existing Services: Individual Network Radio, Digital TV, and Digital Radio Channels (Source: OLR, March 2006[5])

Service	BBC's Current Allocation	Participants' Average Allocation	Difference Units	(%)
R1	3	2.9	-0.1	(-3%)
R2	3	3.0	-	-
R3	3	2.8	-0.2	(-7%)
R4	4	3.8	-0.2	(-5%)
Five Live [a]	4	3.9	-0.1	(-3%)
All network radio	17	16.4	-0.6	(-4%)
BBC3	4	4.5	+0.5	(+13%)
BBC4	3	3.7	+0.7	(+23%)
CBBC/CBeebies	4	4.4	+0.4	(+10%)
News 24	3	4.1	+1.1	(+34%)
BBC Parliament	1	1.7	+0.7	(+70%)
All digital TV	15	18.4	+3.4	(+23%)
1Xtra	2	1.7	-0.3	(-15%)
6 Music	2	1.7	-0.3	(-15%)
Asian Network	2	1.7	-0.3	(-15%)
BBC7	2	1.6	-0.4	(-20%)
All digital radio [a]	8	6.7	-1.3	(-16%)

[a] Sports Extra (digital) is included under Five Live

These results for existing services are consistent with the view that most licence fee payers strongly support the BBC's role in the move towards digital Britain.

Prioritisation Among Combined Existing and New Services (OLR)

Having completed the resource allocation just described (allocating 100 units among the 20 listed existing services), participants did the exercise reported at the end of Section 3, allocating 20 units among the six proposed new services.

The final, and most important, exercise was to allocate 120 units across the combined portfolio of 26 existing and new services. This gave them the freedom to shift resources as they wished between the existing and new services, ie every unit they allocated to a new service was one which they could have invested in the existing services.

Further, this exercise was done near the end of the forum, benefiting from several hours of learning, discussion, and reflection. I believe it gives us the most valid indicator to-date of the public's response to the proposed new services, relative to each other and to the existing services.

The main results are in Table 4.3. They constitute a strong public endorsement of both the BBC's existing digital services, taken as a whole, and the proposed new digital services: on average, participants chose to increase resources for both sets of digital services by 5%, funded by a 4% reduction in resources for analogue TV and radio.

Table 4.3 Prioritisation Among Combined Existing and New Services (Source: OLR, March 2006[5])

Service	BBC's Current Allocation	Participants' Average Allocation	Difference Units (%)
BBC1	28	24.4	-3.6 (-13%)
BBC2	12	15.1	+3.1 (+26%)
Network radio	17	15.9	-1.1 (-6%)
Local, regional, national	11	9.6	-1.4 (-13%)
All analogue services	68	65.0	-3.0 (-4%)
Digital TV channels	15	16.9	+1.9 (+13%)
Digital radio channels	8	6.4	-1.6 (-20%)
bbc.co.uk	4	5.2	+1.2 (+30%)
BBCi	3	2.7	-0.3 (-10%)
BBC Jam	2	2.5	+0.5 (+25%)
Existing digital services	32	33.7	+1.7 (+5%)
Digital infrastructure	7	7.1	+0.1 (+1%)
On demand TV and radio	5	5.7	+0.7 (+14%)
Local TV	3	2.0	-1.0 (-33%)
Open archive	2	3.0	+1.0 (+50%)
HDTV	2	2.0	- -
Create your own (archive)	1	1.2	+0.2 (+20%)
New digital services	20	21.0	+1.0 (+5%)
Total	120	120	- -

For existing services, the allocations in Table 4.3 can be compared with those in Table 4.1, where the existing services were considered earlier in the forum and separately from the new ones. The main change is a reduction in the increase in resources for existing digital services, compared to the initial allocation. In the initial exercise, the existing digital services were given an overall 9% increase. In the combined exercise, this came down to an increase of 5%, as just noted.

In addition to this shift, there were some other small changes in the relative resource allocation for existing services in Table 4.3 vs Table 4.1 (see also Table 4.4 vs Table 4.2, for individual channels) but nothing major.

Table 4.4 Revised Prioritisation in Combined Context: Individual Network Radio, Digital TV, and Digital Radio Channels (Source: OLR, March 2006[5])

Service	BBC's Current Allocation	Participants' Average Allocation	Difference Units (%)
R1	3	2.9	0.1 (-3%)
R2	3	2.8	-0.2 (-7%)
R3	3	2.4	-0.6 (-20%)
R4	4	4.0	- -
Five Live	4	3.8	-0.2 (-5%)
All network radio	17	15.9	-1.1 (-6%)
BBC3	4	4.6	+0.6 (+15%)
BBC4	3	3.2	+0.2 (+7%)
CBBC/CBeebies	4	4.1	+0.1 (+3%)
News 24	3	3.9	+0.9 (+30%)
BBC Parliament	1	1.1	+0.1 (+10%)
All digital TV	15	16.9	+1.9 (+13%)
1Xtra	2	2.0	- -
6 Music	2	1.6	-0.4 (-20%)
Asian Network	2	1.3	-0.7 (-35%)
BBC7	2	1.5	-0.5 (-25%)
All digital radio	8	6.4	-1.6 (-20%)

Prioritisation Among New Services in the Combined Context

More important for this report, the bottom section of Table 4.3 provides some insights into the public's prioritisation among the new services. These differ from, and are somewhat more reliable than, the initial results in Table 3.4 (Table 4.5):

Table 4.5 Initial vs Revised Prioritisation Among New Services: Change from Projected BBC Allocation
(Source: OLR, March 2006)

Service	Initial Allocation [a]		Revised Allocation [b]	
	Units [c]	(%) [c]	Units [c]	(%) [c]
Digital infrastructure	-0.2	(-3%)	+0.1	(+1%)
On demand TV and radio	+0.6	(+12%)	+0.7	(+14%)
Local TV	-1.0	(-33%)	-0.1	(-33%)
Open archive	+0.5	(+25%)	+1.0	(+50%)
HDTV	-0.2	(-10%)	-	-
Create your own (archive)	-	-	+0.2	(+20%)
Total	-	-	+1.0	(+5%)

[a] New services considered separately (Table 3.4)
[b] New services in combination with existing services (Table 4.3)
[c] Change from projected BBC allocation

From these results, especially the revised allocations, we can conclude that:

(a) The public clearly endorses the idea that the BBC should both (i) build out the digital infrastructure and (ii) provide services to use that infrastructure.

(b) The public is attracted to the proposals for on demand TV and radio (elsewhere referred to as 7-day catch up, MyBBCPlayer, and the interactive media player), the open archive, and create your own (archive).

(c) Participants at the London-based OLR forum are sceptical of the value of local TV.

(d) They were largely agnostic about HDTV, finally (on average) leaving the projected BBC allocation unchanged at three units.

Overall Perceived Value of the Proposed New Services

As an arithmetic exercise, we can take the results of this exercise and combine them with the Human Capital valuation of existing services in Section 2 (£20/month) to produce a rough estimate of the overall perceived value of the new services:

$$\left(\begin{array}{c}\text{Absolute value}\\\text{of new services}\end{array}\right) = \left(\begin{array}{c}\text{Absolute value of}\\\text{existing services}\end{array}\right) \times \left(\begin{array}{c}\text{Value of new services relative}\\\text{to value of existing services}\end{array}\right)$$

$$= \left(\text{£20/month}\right) \times \left(\frac{21\text{ units}}{99\text{ units}}\right) = \text{£4.24/month}$$

In annual terms, this would be equivalent to just over £50 per annum for the average licence fee payer, much more than both the new services' incremental cost and the value assumed in the BBC's submission, based on the March 2005 MORI survey.

I believe this is probably a better estimate than the BBC's because the method is more robust and the OLR forum participants are likely to have had a better understanding of the new services than the MORI survey respondents a year earlier.

However, I do not consider it a really reliable estimate (eg sufficient for a public value test) because the relative value attributed to the new services (21 units vs 99 for existing services) is likely to have been strongly influenced by the initial figures given to participants for the BBC's allocation. For instance, if participants had been told that the initial projection was to allocate 10 units to the new services, they would most likely have allocated, say, 11 or 12 units out of 110, ie a significantly lower proportion than 21 out of 120. In addition, future research on the proposals must work even harder to ensure that respondents/participants understand as fully as possible how each service would work.

Nevertheless, given the opportunity in the combined resource allocation exercise, the OLR participants did increase the resources for the proposed new services, especially on demand TV and radio and the open archive. Regardless of the arithmetic, at a qualitative level these responses reflect strong public support for the BBC's leading role in building digital Britain.

Implications for Overall Willingness to Pay

At the end of Section 2, I concluded that about 65%-70% of people in 2013/14 would be willing to pay more than £150 (in 2005 pounds) for the existing BBC services, depending on the quality of the services at that time.

The results of the OLR forum, especially the final resource allocation exercise for combined existing and new services, suggest that the new services are likely to add substantial incremental public value, ie in addition to the perceived value of existing services.

I do not believe that the research enables us to quantify this reliably, but it is hard to interpret the OLR discussion and resource allocation as reflecting a perceived incremental value of less than 10% for the BBC's proposed digital infrastructure and new services, which was roughly the figure assumed in the BBC's bid (eg consumer value of £11.01/month with the new services against an assumed value of £10/month for the existing services alone).

The OLR results suggest that this may be an underestimate, but we need more research to clarify this. Presumably, this will be done for the public value tests for the main proposed new services.

Meanwhile, even a 10% incremental public value would be roughly equivalent to a 9.1% (ie 100/110) reduction in the licence fee from £150 to £136.40 2013/14 (in 2005 pounds), a cut of £13.60/year or £1.13/month. I discuss the impact of small changes in the licence fee in the following section on targeted help. At this stage, I note that the Human Capital study suggests, within the range, that for every £1/month increase (decrease) in the licence fee, the proportion of the public willing to pay it will decrease (increase) by 4.2 percentage points. A £1.13/month reduction would therefore increase the number willing to pay by about 4.2 x 1.13 = 4.7 percentage points.

The net effect is that the proportion willing to pay £150 (in 2005 pounds) in 2013/14 would increase from 65% - 70% for existing services to about 70% - 75% (as consumers and citizens, respectively) for the combination of existing and new services. I would expect this estimate to be, if anything, conservative, although this crucially depends on the perceived quality of the BBC's programmes in 2013/14, far more than on its new digital technologies for distributing those programmes and supplementing them with interactivity etc.

OLR Participants' Responses to the Forum and Overall Support for the BBC

At the end of the forum, participants were asked about their attitudes to both the forum and the BBC. The responses were overwhelmingly positive. Participants found the forum enjoyable (80%), interesting (95%), informative (94%) and important (94%). Only 11% found it confusing, suggesting that, with good preparation and facilitation, a deliberative workshop can be used to explore complex issues, especially on a topic as familiar and important to the public as the BBC.

96% of participants agreed that "a citizens' forum like today's event is a good way of involving the public in important issues", the other 4% saying "Don't know". By the end of the day, participants felt much better informed about how the BBC spends its money and more satisfied with its resource allocation.

The BBC's product line is already much more complex than a few years ago (fewer than half of the 20 existing services explored in the citizens' forum existed). The new services will make it even more so. The BBC will need to:

(i) Test each proposal fully before adding further to this complexity, via a full public value test in the case of significant services.

(ii) Ensure that the priority is to continue creating top-quality content: there is a danger that exciting new distribution technologies divert resources and, especially, management attention away from this.

(iii) Keep communicating the range of services it offers.

The benefits of (iii) were demonstrated by a before-and-after question about the OLR participants' general impression of the BBC. At the start of the day, 86% said they generally approved of the BBC (responses 6-10 on a 10-point scale, with 1= "extremely unfavourable" and 10= "extremely favourable"). By the end of the day, this had increased to 93%. 86% approval is high, 93% is exceptional.

Some of this shift may have reflected engagement in the forum, but some doubtless also reflected participants' better appreciation of the range of BBC services, their role in people's lives (both the individual participants' and others', especially those in the same group), and the challenge of managing, and allocating resources between, so many services in a complex, competitive, and fast-changing market.

Presumably the unfavourable minority (14% at the start of the day, 7% at the end) represents much the same people as those saying that, given the choice, they would not be willing to pay for the BBC in the Human Capital study. As noted in Section 2, I recommend that the BBC conduct research to gain a better understanding of this minority and the (possibly very varied) reasons for their disapproval of and/or unwillingness to pay for the BBC.

I now turn to the third and last issue in the brief for this report, targeted help for vulnerable citizens during digital switchover.

5. WILLINGNESS TO PAY FOR TARGETED HELP TO SUPPORT DIGITAL SWITCHOVER (BMRB OMNIBUS, HUMAN CAPITAL)

In order to test likely public responses to an extra increase in the licence fee to pay for targeted help, I consider two data sources:

- First, in March 2006, the BBC Governance Unit commissioned BMRB to include some questions in one of its regular "omnibus" surveys directly asking respondents about their attitudes to the targeted help proposed, both in principle and in the context of the BBC's best estimate of the size of the required annual supplement to the licence fee.
- Second, I consider the likely impact on the public's overall willingness to pay the licence fee, again using the Human Capital study discussed in Section 2.

BMRB Omnibus Survey (March 2006[6])

BMRB spoke face-to-face to a representative sample of 2,000 UK adults in March 2006. The targeted help questions were introduced with the following preamble:

"The Government has stated that they aim to switch off the analogue television signal by 2012 when all homes would be able to receive digital television. The Government has also said that there should be a further increase to the licence fee in order to make sure more vulnerable groups such as the elderly have access to digital television"

Respondents were then asked whether, in principle, they supported or opposed increasing the licence fee in order to ensure that vulnerable groups will have access to digital television. Excluding "Don't knows" (4% of respondents) the results were:

- 53% supported it in principle (strongly support/support)
- 47% opposed it in principle (strongly oppose/oppose)

The sample was then split into four equal subsamples to assess the level of support for four alternative levels/patterns of licence fee increase. Two of these involved a series of small year-on-year increases over the six-year assumed duration of targeted help:

"If the licence fee was increased by an extra £1.20 [subsample A]/£1.80 [subsample B] each year for six years, and was then dropped down to the normal licence fee level, how would you feel then?…

The additional increases to help vulnerable groups would therefore look like this:

year 1 = licence fee + £1.20 [subsample A]/£1.80 [subsample B]
year 2 = licence fee + £2.40 [subsample A]/£3.60 [subsample B]
year 3 = licence fee + £3.60 [subsample A]/£5.40 [subsample B]
year 4 = licence fee + £4.80 [subsample A]/£7.20 [subsample B]
year 5 = licence fee + £6.00 [subsample A]/£9.00 [subsample B]
year 6 = licence fee + £7.20 [subsample A]/£10.80 [subsample B]
year 7 = licence fee + no extra cost to support vulnerable groups"

The other two involved a single bigger increase in Year 1 with no further increases in the targeted help supplement in the remaining five years:

"If the licence fee was increased by £4 [subsample C]/£6 [subsample D] for six years and then dropped down again to the normal licence fee level, how would you feel then?"

I refer to the two patterns as "wedge" and "block", respectively. Excluding "Don't knows" (3% - 7% of respondents for the four subsamples), the percentages supporting the targeted help supplement are shown in Table 5.1:

Table 5.1 Percentage of Respondents Supporting[a] a Specific Targeted Help Supplement to the Licence Fee
(Source: BMRB Omnibus, March 2006[(6)])

Pattern	Lower	Higher
	+£1.20 in Year 1 rising to +£7.20 in Year 6 (A)	+£1.80 in Year 1 rising to +£10.80 in Year 6 (B)
"Wedge"	52%	49%
	£4 annual supplement for six years (C)	£6 annual supplement for six years (D)
"Block"	51%	43%

[a] Percentage of respondents (excluding "Don't Knows") saying "strongly support" or "support".
The alternatives were "oppose/strongly oppose".

These results show that, when asked directly about a specific temporary supplement to the licence fee to fund targeted help during digital switchover,

(a) at the lower levels tested, about 50% of people support the proposal (about the same proportion as support it in principle) while the other 50% oppose it.

(b) with the "wedge" pattern, increasing the annual steps over the six years from +£1.20 to +£1.80 – a 50% increase – has little effect on the level of public support: a three-point decrease from 52% to 49%

(c) in contrast, with the "block" pattern, increasing the annual supplement from £4/year to £6/year (again, a 50% increase) significantly reduces the level of support from 51% to only 43%.

The two "lower" patterns are roughly equivalent to each other financially, after allowing for the higher financing costs of the "wedge" pattern (and similarly the two "higher" patterns). These results suggest that, assuming the Government proceeds with the targeted help supplement, the "wedge" pattern will probably be more acceptable to the public.

In practice, however, the targeted help supplement will not happen in isolation. Instead, it will increase the total level of the licence fee over the six years. An important issue is therefore what impact it will have on the public's overall willingness to pay for the licence fee. To assess this, I return to the Human Capital study on willingness to pay.

The Impact of the Targeted Help Supplement on Overall Willingness to Pay (Human Capital)

A key characteristic of the Human Capital results (see Figure 2.1), in line with earlier studies of willingness to pay, is that there is no sudden "tipping point" above which willingness to pay for the BBC drops dramatically. Instead, for all hypothetical increases above the current level, the percentage of people willing to pay decreases smoothly. Since we have no data on responses to levels in between those tested by Human Capital (eg between £20/month and £30/month), in Figure 2.1 I have simply used straight lines between the points. As the price level increases above the current level, the slope of the line decreases. Hence my statement that there is no "tipping point".

The exception is the current price, £10/month. The slope of the graph is steeper for prices immediately above this point than for prices below it.

Specifically, for those responding as citizens, increasing the price from £5/month to £10/month reduces the number willing to pay from 92% to 81%, a difference of 11 percentage points, or 2.2 percentage points for each £1/month increase. Further increasing from £10/month (the current level) to £15/month leads to a reduction from 81% to only 60% saying they would be willing to pay the fee, a decrease of 21 points or 4.2 percentage points for each £1/month increase in the licence fee.

For a further increase from £15/month to £20/month, the slope is only slightly less, at 3.6 percentage points per £1/month increase. Between £20 and £30, it drops back to 2.2 percentage points per £1/month increase.

The increased slope at the current price is a widely observed effect, sometimes called a "kinked demand curve". In the language of economics, it means that price elasticity differs between increases and decreases in price relative to the current level. In the language of consumer psychology, the current price is an important example of a "reference price", that is, a standard of comparison against which other actual or potential prices are judged. [(15)]

In practice, when prices increase, consumers typically adapt so that the new price becomes the new reference point which is seen as "fair". In this situation, willingness to pay will be higher than predicted by research conducted when the price was at the earlier level.

Nevertheless, for exploring the impact of the targeted help supplement on willingness to pay, I (probably conservatively) take Figure 2.1 at face value and assume that, for every £1/month increase in the licence fee, the percentage of the public willing to pay will decrease by 4.2 points.

For simplicity, I consider only the case of the higher "block" pattern, a fixed supplement of £6/year for six years (although, as already discussed in the context of the BMRB omnibus results, this is probably not the recommended approach). £6/year is equivalent to 50p/month, so my best estimate is that this supplement would reduce willingness to pay by approximately $0.50 \times 4.2 = 2.1$ percentage points.

For instance, supposing in 2010/2011 (during the process of digital switchover) 75% of the public would say that, as citizens, they were willing to pay the then level of the licence fee, excluding the targeted help supplement, for the services then provided by the BBC. A £6/year targeted help supplement would then reduce this proportion from 75% to about 73% of the population.

This is in my view a more reliable estimate than one could derive by other methods which focused on the supplement in its own right, for instance by trying to convert the public's approval level for the supplement (as measured in the BMRB omnibus) into an estimate of willingness to pay.

Regardless of the public's views on the targeted help supplement as a matter of principle, and especially on whether it should or should not be funded through the licence fee, at a level of £4 - £6 per annum or equivalent, its impact on willingness to pay will be small.

When asked directly, almost 50% oppose the supplement both in principle and in response to specific likely levels of the supplement. The latter response is not very price sensitive. But in the wider context of the overall licence fee, the proportion of people who would be willing to pay without the supplement but not willing to pay with it is only of the order of 2% of licence fee payers.

6. CONCLUSIONS AND RECOMMENDATIONS

In this section, I first give my conclusions for the three issues in the brief. I then give some tentative recommendations and a concluding comment.

Likely Reaction to a £150 Licence Fee in 2013/14

The evidence from Human Capital's substantial May 2004 study on the value of the BBC is that, when asked to think about it, and if really forced to choose between paying the licence fee and losing the BBC's services, most licence fee payers would, if they had to, pay substantially more than the current £10/month for the existing BBC services.

The evidence that people's approval of, and willingness to pay for, the BBC increases when they think about it more is supported by the increase in approval from 86% to 93% during the course of the OLR citizens' forum.

I regard the Human Capital study as giving the most reliable estimate to-date of the value of the BBC (although I recommend further R&D in this area, see below).

In line with other studies, the Human Capital research suggests that there is no sudden "tipping point" for the licence fee above which willingness to pay for the BBC would drop dramatically. With various provisos, I therefore project that, if the licence fee increases from £120/year in 2004 to £150/year in 2013/14 (in constant pounds), the proportion of people willing to pay for the existing services would fall from about 75% - 80% today (as consumers and citizens, respectively) to about 65% - 70% in 2013/14. Of course, this crucially depends on the perceived quality of the BBC's programmes.

Research on public responses to the proposed new services (discussed below) suggest that, in 2013/14, roughly 70% - 75% would be willing to pay £150/year for the combination of existing and new services (again, as consumers and citizens, respectively). This estimate corresponds to a five percentage point drop from today's 75% - 80%. With good management and resource allocation, and good communication of the BBC's offering, the reduction in support could be less than this or even eliminated

Responses to Proposed New Services

Both the March 2005 MORI survey and the March 2006 OLR citizens' forum suggest strong public support for the BBC's role in building digital Britain by investing in both new infrastructure and new services:

- Attitudinal responses to most of the proposals in the MORI survey varied from positive to very positive
- The MORI respondents expected all the proposed new services to be of high quality and distinctive
- A majority felt that the BBC should definitely or probably proceed with all or almost all the proposals
- When the OLR participants were asked to allocate resources across the combination of existing and new services, they on average reduced the resources for existing services in order to increase the investment in new services above what they had been told was the BBC's projected investment

The last point is especially telling since this exercise (i) was near the end of a full day of reading, listening, discussing, and reflecting about the existing and new services, and (ii) emphasised both the costs and the opportunity costs of the proposals. The participants were therefore well informed and aware of the trade-offs and resource constraints.

Taking the OLR responses at face value, and combining them with the Human Capital results for people's willingness to pay for the existing services, would suggest an incremental value of £50/year per household for the new services. For methodological reasons, I do not regard this as a reliable estimate, but it confirms that the perceived value of the proposed new services is substantial.

Turning to the specific proposals:

- Both MORI and OLR suggest strong public support for on demand TV and radio (7-day catch up) and the open archive (also collectively referred to as MyBBCPlayer and the interactive media player) from both a consumer and citizen perspective.
- MORI suggested strong support for local TV news. OLR did not, perhaps reflecting the London-based sample.
- MORI showed fairly strong consumer support for better navigation, active engagement, and content for young teenagers, and moderate consumer support for learning for 14-18 year olds and for the creative archive. As citizens, the MORI respondents strongly supported content for young teens and learning for 14-18s.
- OLR did not explore most of these smaller proposals and did not evaluate consumer responses separately from citizen responses. It did, however, find a positive response to the creative archive proposal (a 20% increase in resources in the final exercise)

- The OLR participants explicitly supported the building of digital infrastructure and, less definitely, HDTV
- Of the ten proposals explored by MORI, the only one that received little support (in both the consumer and citizen questions) was mobile TV.

These are tentative conclusions. I assume that each of the main proposals will be subject to a public value test, including an assessment of:

(a) The full long-term incremental cost, including any opportunity costs (eg the on demand and archive proposals would presumably reduce the BBC's ability to repeat the material and/or generate fees from it at a later date).

(b) The public value, based on more detailed research. Crucially, this research must ensure that respondents/participants understand the services as fully as possible, eg that the on demand and archive services are based on broadband PC distribution, not TV distribution.

(c) The market impact, and its indirect effects on public value (mainly due to potential "crowding out"). Some of the proposals could have a significant market impact, including by swamping the internet with bandwidth-hungry video content.

Willingness to Pay for Targeted Help to Support Digital Switchover

When asked directly in the March 2006 BMRB Omnibus survey about a licence fee supplement to pay for targeted help for the vulnerable during digital switchover (and excluding "Don't knows"), 53% supported it in principle, 47% opposed it in principle.

The OLR forum participants strongly endorsed the BBC's plans for building digital Britain, including the BBC's role in communicating the new technologies and services and ensuring that everyone has fair and equal access to the services.

Taking these two results together suggests that many of the almost 50% who disapprove in principle of a licence fee supplement to fund targeted help nevertheless agree with the idea of targeted help but feel that it should not be funded through the licence fee. This is my interpretation – we have no direct evidence on this point.

Four realistic scenarios were tested on different subsamples of the BMRB omnibus sample, each corresponding to a different pattern/level of supplement. All were roughly equivalent to a constant supplement of £5/year for six years. While there was some variation, all four scenarios produced a roughly 50-50 split between approvers and disapprovers, although for one scenario (£6/year for six years) the number approving dropped to only 43%. If the supplement is instead built up year-by-year through smaller annual increases, the responses are less price sensitive.

Despite these rather low approval levels when respondents are asked directly about a licence fee supplement to fund targeted help, the likely impact on the proportion of the public willing to pay the licence fee is small, eg of order 2% (based on the Human Capital study).

In the public's mind, this issue is therefore mainly a matter of principle, ie whether targeted help (which the public supports) should be funded by the licence fee. If the Government proceeds with this proposal, it will not be the straw that breaks the licence fee's back.

Recommendations

A number of recommendations arise from the analysis in this report:

1. The public's willingness to pay for the BBC should be monitored regularly, eg every three years, using "heavyweight" methods similar to those used by Human Capital in May 2004.
2. I also recommend further R&D on the measurement of public value in the following areas (see Endnote (12)):
   (i) Using digital technology to test people's actual, rather than claimed, willingness to forgo BBC services.
   (ii) Exploring the implications of consumer psychology theory (eg reference prices) for estimation of the BBC's 'consumer' public value[8,15].
   (iii) Exploring the implications of recent psychological research about how the public thinks about public services and public expenditure. This research may suggest better ways to evaluate the 'citizenship' aspects of public value [9].
   (iv) Conducting further work on the "counterfactuals", ie both the likely and the perceived (by respondents) situation which would occur if the respondent says s/he would not be willing to pay the licence fee or an equivalent subscription.
3. I recommend that the BBC conduct specific research on the minority who disapprove of it and/or say that, given the choice, they would choose not to pay the licence fee even if this meant losing all BBC services (i) for themselves and their household or (ii) for the whole country.

4. When conducting further research for the public value tests for specific proposed new services, the BBC should ensure (preferably through hands-on demonstrations) that respondents/participants understand the service in question as well as possible, eg which services would be delivered by television and which by broadband PC. In the case of local TV, research is needed which (a) covers areas where the service would and would not be available and (b) demonstrates the nature and quality of the content, eg by showing material from a pilot test.

5. If the Government proceeds with the proposal for a licence fee supplement to fund targeted help, this should be communicated as simply a necessary part of digital switchover, ie ensuring that the vulnerable are not excluded. In order to ensure that the help goes to those who need it, I also suggest that research is needed to clarify who are the most vulnerable citizens in this context: doubtless many of the over 75s and severely disabled are vulnerable, but many are not, and many of the most vulnerable are neither over 75 nor severely disabled.

6. The range of the BBC's services is already much greater than a few years ago even before the likely addition of new ones. It may be becoming too complex. At the least, the BBC must ensure that it communicates the full range clearly. It should also consider simplifying its offering. Above all, it must on no account allow its enthusiasm for new services to distract it from its primary purpose to inform, educate, and entertain by providing top-quality programmes. Compared with this, everything else pales into insignificance.

7. Having seen the results of an earlier deliberative workshop (conducted by MORI for Ofcom) and now directly observed, and closely studied the results of, the OLR citizens' forum reported here, I recommend that the BBC continues to use this approach when exploring what the public thinks about issues too complex to research by simple questionnaire surveys. The participants can be recruited to be representative, unlike those who respond to public consultations or turn up for public meetings. The latter approaches are also important, especially for allowing individuals or small minorities with strongly held opinions to communicate their views. It can also be helpful for policymakers, managers, and regulators to hear people's views direct and unmediated. But it is important to check the representativeness of the views expressed via a well-designed survey or citizens' forum.

Concluding Comment

We need to remember that the BBC today operates in markets that are both competitive and extremely dynamic. The costs assumed in its bid need to be checked and each of its major proposals for new services will, quite rightly undergo a public value test much tougher than in the past when there was less separation between the Governors and management of the BBC.

At the same time, given the huge uncertainties in its markets – technology, consumer preferences, competition, supply – we should not be asking the BBC for a Soviet-style plan which says exactly what it will be doing, and how it will allocate its resources, in five or seven years' time.

There is a "bigger picture" which emerges consistently from all research which presents the public with realistic policy options for the BBC and requires them to think carefully about their responses. In this "bigger picture", the BBC is highly trusted, highly valued, and assumed to be the public's most important guide to the transition to a fully digital broadcasting world. To play this role, it will need enough resources and enough flexibility to adapt to changes in markets, technologies, and the needs of society. Inevitably, the costly transition to digital (infrastructure, services, communication, and probably targeted help) will require a higher licence fee for the next few years than if these costs did not arise.

My interpretation of the public's view is that most – although not all – want to see the BBC continue as one of the main pillars of British broadcasting. Inevitably they will often complain about perceived shortcomings in the BBC's programmes, and of course they would prefer to receive the services without paying, but when faced with the practical alternatives, most people would prefer a bigger, stronger BBC to a smaller, weaker one, despite the extra cost of a few pounds per month.

Endnotes

(1) "Measuring the Value of the BBC: A Report by the BBC and Human Capital", October 2004. The fieldwork was done by GfK Martin Hamblin, http://www.bbc.co.uk/thefuture/pdf/value_bbc.pdf

(2) Andrew Ehrenberg and Pam Mills, "Viewers' Willingness to Pay for the BBC", London Business School, 1990

(3) MORI research on BBC new services, March 2005, http://www.bbc.co.uk/thefuture/pdfs/bbc_licence_information3.pdf

(4) "Building Public Value: Renewing the BBC for a digital world", June 2004, http://www.bbc.co.uk/thefuture/pdfs/bbc_bpv.pdf

(5) Opinion Leader Research, "BBC Governors' Licence Fee Bid Forum", March 2006, http://www.bbcgovernors.co.uk/docs/reviews/olr_citizensforum.pdf

(6) BMRB Omnibus survey, March 2006, http://www.bbcgovernors.co.uk/docs/reviews/bmrb_omnibus.pdf

(7) Simon Kemp, "Public Goods and Private Wants: A Psychological Approach to Government Spending", Edward Elgar, 2002

(8) Daniel Kahnemann, Paul Slovic & Amos Tversky, eds, "Judgement Under Uncertainty: Heuristics and Biases," Cambridge University Press, 1982; Eric J Johnson and Daniel G Goldstein (2003), "Do defaults save lives?", Science, 302, 1338-1339.

(9) The four methods were Gabor-Granger (top-down, consumer), national voting (top-down, total), non-normalised chip allocation (bottom-up consumer), and non-normalised chip allocation again (bottom-up, total). The fieldwork was conducted face-to-face, to allow the inclusion of card-sorting exercises, with 1,121 respondents for the consumer questions, and a separate sample of 1,136 for the 'citizenship' (ie total value) questions

(10) Nevertheless, there is scope for further R&D on several aspects of willingness to pay. (i) I believe the Human Capital study, and others using survey methods, overstate the number of people who, as consumers, would really choose to forgo the BBC's services in order to save the licence fee. It may now be possible to test this conjecture directly using digital technology. (ii) There may also be scope for exploring the implications of consumer psychology theory for the licence fee as a moving "reference price", briefly discussed in Section 5. (iii) Willingness to pay methods are not ideally suited to evaluating the citizenship aspects of the BBC: asking the public how much they are prepared to pay for a public service, over and above its direct value to their own household, poses a very tough test which is rarely applied to other, much bigger, public expenditures. (iv) We also need more work on the counterfactuals, ie the situation which would occur if the respondent rejects the BBC. For consumer value, this would be that there would still be a BBC (bigger or smaller than now, depending on its subscription revenue). For total/citizenship value, the counterfactual would be no BBC. In this situation, the commercial players (and C4) would be able to expand somewhat, compensating for some of the loss. Most of the funding for this expansion, however, would have to come directly from consumers via subscription, at a significantly higher cost per viewer/listener hour than the licence fee.

(11) Patrick Barwise and Seán Meehan, "Simply Better: Winning and Keeping Customers by Delivering What Matters Most", Harvard Business School Press, 2004.

(12) BBC strategy group briefing note on the MORI research, summer 2005, page 5.

(13) This was an issue already identified in my 2004 "Independent Review of the BBC's Digital Television Services" for DCMS, see Recommendation 4.1 on page 95.

(14) In reality BBC Parliament accounts for less than 0.1% of expenditure, not the 1% used here. A recent Hansard Society Commission, chaired by Lord Puttnam (and on which I served) recommended a significant increase in the scope and budget of BBC Parliament, see Hansard Society, "Members Only?: Parliament in the Public Eye", 2005, pages 79-82

(15) Russell S Winer, "Pricing", Cambridge MA: Marketing Science Institute, 2005. Reference prices are discussed on pages 20-24.

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