

**BBC Trust**

# **Changes to HD channels**

## **Assessment of significance**

May 2012

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# The Trust's decision

The Trust has considered the BBC's proposal to make changes to its portfolio of high definition (HD) television channels, and has formed the view that the proposals do not represent a significant change to the UK Public Services. It has therefore decided that a Public Value Test is not required in order to implement these changes.

In reaching this decision the Trust considered the likely impact of the proposals on users of the services and on others, the financial impact, the novelty of the proposals and their proposed duration.

- Impact on users – the launch of BBC One HD variants for Scotland, Wales and Northern Ireland is likely to have a small but positive impact on audiences. The replacement of BBC HD with BBC Two HD is likely to increase HD consumption overall. Despite some accompanying loss of HD content from BBC Three and BBC Four, we believe that this results overall in a small but positive change.
- Impact on others – the impact on competitors is likely to be minimal, given that we do not expect viewing figures to BBC One HD to change significantly and any incremental HD viewing to BBC Two HD is likely to come from the existing BBC Two audience.
- Financial impact – the net effect of these changes is an increase in BBC distribution spend, although this is small relative to current overall spend.
- Novelty – these proposals do not amount to a significant move into new territory for the BBC, nor the withdrawal from any existing territory.
- Duration – the proposed changes will be permanent.

This rest of this document sets out the Trust's reasoning in each of these areas in more detail.

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# Background to the Trust's consideration

## *Putting Quality First – a new strategy for the BBC*

In December 2010 the Trust published a strategy for the BBC, *Putting Quality First*, which established four key objectives for the coming years. These are to:

- increase the distinctiveness and quality of output
- improve the value for money it provides to licence fee payers
- set new standards of openness and transparency
- do more to serve all audiences.

## *Delivering Quality First – delivering the strategy*

In October 2011 we published the BBC Executive's proposed approach to meeting the constrained funding of the licence fee settlement agreed with the Government in 2010, *Delivering Quality First*. We put these proposals out to public consultation to test the detail of the Executive's proposals against our strategic objectives and priorities for the BBC.

The Trust's final decision on the Executive's proposals has been published today and can be found on the Trust's website.

As part of this process the BBC Executive proposed a number of changes to the BBC's HD television portfolio:

- Closure of BBC HD in 2012.
- Launch of BBC Two England in HD in 2012.

This is planned to be a simulcast of BBC Two in high definition (HD). Because of the capacity requirements of HD channels, the England national variant of BBC Two will be broadcast. Viewers in the other UK nations would need to watch the BBC Two standard definition service in order to view the opt-out programming for their regions.

The channel will use the existing BBC HD broadcast capacity.

- Launch of full BBC One HD channels for Scotland, Wales and Northern Ireland to replicate the existing standard definition channel in each Nation in 2012.

Currently, viewers of BBC One HD are presented with an information screen advising them to switch to the standard definition version of BBC One during opt-out blocks. Following these changes, viewers in Scotland, Wales and Northern Ireland would receive a simulcast of BBC One SD in high definition, including the relevant Nations opt outs.

Viewers of BBC One HD in England would continue to receive an information screen during regional opt-out blocks, as at present.

These planned changes were put forward for public consultation as part of the *Delivering Quality First* process. However, no significant responses regarding these specific issues were received by the Trust.

### Testing the BBC's proposals for their significance

Under the terms of the BBC's Framework Agreement with the Secretary of State, the Trust may from time to time need to undertake assessments of certain of the BBC Executive's proposals in order to determine when a Public Value Test (PVT) must be applied.

The PVT is a formal assessment process requiring the Trust to assess the public value of the proposed change, Ofcom to assess the market impact of the proposed change and two periods of public consultation.

The Trust recognises its responsibility to undertake a PVT where there is evidence that a proposal constitutes a significant change to the BBC's UK Public Services. It also recognises that the purpose of clause 25 of the Framework Agreement is accordingly a necessary filter to ensure that the PVT is reserved for significant changes.

In deciding whether a proposal constitutes a significant change to the UK Public Services, the Trust must have regard to the four considerations set out in clause 25(2) of the Framework Agreement; that is, the impact, financial implications, novelty and duration of the proposed change.

In July 2011 the Trust made a commitment to expand its relationship with Ofcom<sup>1</sup> to take full advantage of Ofcom's understanding of the wider communications sector and, in particular, to invite Ofcom to provide its view of the 'impact on others' (e.g. providers or potential providers of alternative products and services) of a proposal from the BBC Executive that the Trust considers should be subject to a significance test. Ofcom's view of the 'impact on others' will inform the Trust's decision in respect of its significance test, and in particular, the Trust's view of the 'impact on others' of the proposed changes.

This document relates specifically to the proposals relating to high definition broadcast services. As set out in clause 25 of the Framework Agreement, whether proposals meet the criterion of significance is a matter for the judgment of the Trust.

### The BBC's current approach to HD services

High definition TV services have been available in the UK since 2007, and many major broadcasters, including the BBC, ITV, Channel 4 and Sky, now broadcast channels in HD across the different TV platforms. Most of these channels are simulcasts of standard definition (SD) channels, outputting a mixture of "true HD" and "upscaled SD" content without altering the channel schedule.

BBC HD currently simulcasts HD versions of BBC content from across its channel portfolio where available, filling the rest of the schedule with HD versions of programmes which have already aired in SD on other BBC channels.

BBC One HD was launched in 2010 and currently provides a simulcast of the entire BBC One schedule, with the exception of regional opt-outs.

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<sup>1</sup> This commitment has been codified in an Addition the Memorandum of Understanding between the BBC Trust and Ofcom, agreed in November 2011 and published in December 2011 (see [http://www.bbc.co.uk/bbctrust/assets/files/pdf/about/mou\\_addition\\_dec2011.pdf](http://www.bbc.co.uk/bbctrust/assets/files/pdf/about/mou_addition_dec2011.pdf))

The transition to HD affects all the different parts of the TV value chain, from production right through to consumption through viewers' TV sets. This transition is now well underway in the UK, with new programmes increasingly being produced in HD as standard. As a result, all of the main five terrestrial TV channels currently have an HD simulcast version available on at least one platform, with the exception of BBC Two.

If the Trust were to agree to the Executive's proposed changes to HD services then changes would be required to both the BBC HD service licence (which would need to be discontinued) and BBC Two's service licence (to explicitly allow the delivery of the service in HD. This is the same approach as was taken for the launch of BBC One HD in 2010, which likewise did not require a new and separate service licence to be created).

Were the Trust to approve the Executive's proposals then the following changes to the BBC service licences would need to be made:

### Required changes to BBC service licences

*BBC HD service licence:*

**The licence should be discontinued.**

*BBC Two service licence:*

**Changes to key characteristics:** Section 2 should be updated to include the ability to simulcast the channel in high definition, mirroring the language currently used in the BBC One service licence.

Other changes: none required.

# Test of significant change

The Trust's consideration of the four factors set out in clause 25(2) is detailed below:

## Impact

The Trust looked at the potential impact of the proposals on users and others, as set out in clause 25 of the Framework Agreement. In summary, we believe that there will be a small but not significant positive impact on users as a result of these changes, and that the rest of the market will not be affected to a significant degree. The reasons for arriving at this conclusion are set out below.

### Impact on users

#### *Launch of national variants for BBC One HD:*

The launch of national variants for BBC One HD is unlikely to have a significant impact on viewers. Currently, BBC One HD is broadcast without national or regional variations across the UK. During the times in the BBC One schedule reserved for these opt-outs, viewers to the HD channel are presented with an information screen advising them to switch to the SD version of BBC One if they wish to view the opt-out programming. Following these changes, viewers in Scotland, Wales and Northern Ireland will receive an exact simulcast of their normal BBC One schedule, including all relevant opt-outs, while viewers in England will continue to receive the information screen. All audiences will still have access to their relevant regional content on the main BBC One channel. Therefore, although technically very challenging, from an audience perspective these changes are small and are in line with expectations for a gradual evolution towards HD.

#### *Closure of BBC HD and launch of BBC Two HD:*

We have considered the closure of BBC HD and the launch of BBC Two HD together, as there is already considerable overlap between the two channels. Around 55% of all content on BBC HD originated on BBC Two, and during peak time on BBC HD almost 70% of programmes are from BBC Two, mostly simulcast with the main channel. Thus, the proposals resemble the evolution of a single channel more closely than they represent a closure of one channel and a launch of a completely new one.

There will be some loss of viewer choice due to these changes, but we do not consider them to be significant. The BBC HD schedule currently includes some programmes from other BBC channels which will no longer be available in HD after these changes are implemented. These include BBC Four (approx. 8% of all BBC HD output), BBC Three (~5%), CBBC (~5%) and CBeebies (~3%). Most of this programming is currently scheduled off-peak on the BBC HD channel, with the exception of some BBC Three and BBC Four content. These programmes, although no longer available in HD, will still be available to view in standard definition on their originating channels. Thus, although the choice to watch certain programmes in HD is slightly reduced, viewers can still watch these programmes in standard definition, and the overall impact is therefore minimal.

The Trust has noted that the loss of children's programming from BBC HD could potentially impact on the other proposals within *Delivering Quality First* regarding children's content. However, given that this content on BBC HD was shown out of peak time, in relatively low volume, and that the benefits of HD programming in the children's genre are unclear, the potential impact of these plans in children's programming is likely to be low.

In assessing the potential impact on users of the closure of BBC HD and launch of BBC Two HD the Trust has looked back at the launch of BBC One HD in November 2010. In the twelve months before this launch, BBC HD was the BBC's only HD channel, and drew an average peak time audience of approximately 79,000<sup>2</sup>. After the launch of BBC One HD, users responded well to its introduction and it averaged a peak time audience of approximately 259,000 in its first 12 months of transmission. The audience to BBC HD fell slightly in the same period, to 64,000. Compared to the BBC One peak time audience of approximately five million both these HD channel audiences are small, but it is clear that the simulcast BBC One HD channel proved more attractive to audiences than BBC HD. To put these audience figures in context, the peak time BBC One HD audience represented 5% of the total BBC One audience in its first 12 months of transmission.

The total peak time audience to BBC One across both the SD and HD channel versions was very similar before and after the launch of BBC One HD, growing by just 0.7% (compared to a growth of 0.5% in BBC Two peak time audiences across the same period). It therefore seems very likely that those viewers watching BBC One HD were already BBC One viewers, rather than viewers who specifically chose to watch programmes on BBC One HD because they were being broadcast in HD. The launch of BBC One HD therefore did not have a noticeable impact on viewing figures to other channels.

We would therefore expect a similar small boost in overall HD viewing on the launch of BBC Two HD. We would also expect any increase in HD viewing to come largely at the expense of BBC Two standard definition audiences, and not at the expense of other channels.

In summary, we do not believe that the closure of BBC HD and launch of BBC Two HD represents a significant change to viewers, for the following main reasons:

- Current audiences to BBC HD are relatively low at only 64,000 in peak time
- 55% of the overall BBC HD schedule, and nearly 70% in peak time, is already populated with BBC Two programming
- Though some programmes, particularly those currently broadcast on BBC HD from BBC Three and BBC Four, will no longer be available to view in HD, they will still be available to view on their original channels in SD
- The launch of BBC One HD shows that audiences for BBC Two HD are likely to be cannibalised from the main BBC Two channel.

### Impact on others (market impact)

As part of this significance assessment the Trust invited Ofcom to provide its view of the 'impact on others', in order to take full advantage of Ofcom's understanding of the wider communications sector.

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<sup>2</sup> Peak time defined as 6-11pm (BARB, TNS, BBC Trust analysis)

Ofcom's main conclusions from their response are as follows:

*We have not seen any evidence to suggest that these Proposals should give rise to a material impact on providers or potential providers of alternative products and services.*

*While in principle there may be the potential for other HD channels offering a specific HD Nations service to be affected, we consider the impact of the BBC One HD Nations service to be minimal.*

*We consider that replacing BBC HD by a simulcast BBC Two HD service (noting that 55% of the BBC Two schedule is currently available on the existing BBC HD channel) is very unlikely to give rise to any material effects. In contrast to 2007 when BBC HD was launched, HD services are now well-established and, as the only remaining analogue terrestrial channel not available in HD, we do not see a compelling reason to require further assessment of the Proposals prior to launch of BBC Two HD from an "impact on others" perspective.*

We agree with Ofcom's assessment that the impact on the market of these changes will be minimal. Ofcom's full response is published alongside this document.

In summary we believe that the impact on competitor TV channel viewing is likely to be minimal, given that we do not expect viewing figures to BBC One HD to change significantly, and that we expect that any incremental HD viewing to BBC Two HD will come from the existing BBC Two audience. Audiences currently make their viewing choices primarily based on the programmes that are available, not on whether those programmes are broadcast in SD or HD.

We also expect the impact on suppliers and the rest of the market to be minimal. Currently almost all new BBC commissions are delivered in HD, regardless of specific scheduling plans, reflecting a general move towards HD production across the market and a desire to future-proof BBC programming and safeguard its long-term value. The proposed changes will therefore not significantly affect the supply of HD programmes.

## Financial implications

At the point we undertook this assessment, the BBC Executive indicated that it expects the proposed combined changes to HD services to represent a £2m annual saving on content costs by 2016/17, representing less than 0.1% of total content costs.

However, HD services are particularly costly in distribution terms relative to other services, so we have also looked at the impact on distribution costs of these changes. The changes represent an additional spend of approximately £39.8m over the period between now and 2016/17, with an on-going cost of £6m-£7m per annum. To put this in perspective, this represents about 5% of the BBC's total TV distribution budget.

The net effect on the BBC's finances will therefore be an increase in annual costs, including distribution, of £4m-£5m. Though this does represent an increase, we do not believe that it is a significant one in the context of wider BBC spend.

## Novelty

The Trust does not believe that these proposals amount to a significant move into new territory for the BBC, nor the withdrawal from any existing territory.

## Duration

The proposed changes are part of the BBC's long-term strategy requiring permanent changes to the relevant service licences. However, the Trust is required to consider all the relevant factors under clause 25 and that this alone does not mean it is a significant change, taking account of the other factors.