BBC Trust
Public value assessment of proposals for BBC Three, BBC One, BBC iPlayer, and CBBC

30 June 2015
1. Overall summary
   1.1 Introduction
   1.2 Summary of findings
   1.3 Closure of BBC Three and its reinvention online
   1.4 Launch of BBC One +1
   1.5 Evolution of BBC iPlayer
   1.6 Extended hours for CBBC
   1.7 Trust Conclusions

2. Summary of the proposals
   2.1 Introduction
   2.2 Closure of BBC Three and its reinvention online
   2.3 Launch of BBC One +1
   2.4 Evolution of BBC iPlayer
   2.5 Extended hours for CBBC
   2.6 Investment in drama
   2.7 Overall costs

3. Approach to this assessment
   3.1 Introduction
   3.2 Applying the public value test
   3.3 Methodology
   3.4 Sources of evidence
   3.5 Information sharing
   3.6 Clarifications from the Executive

4. Strategic rationale
   4.1 Introduction
   4.2 Falling income
   4.3 Changing television landscape
   4.4 Changing consumption patterns
   4.5 Concluding remarks

5. Background on BBC Three
   5.1 Introduction
   5.2 Launch and rationale
   5.3 Audience profile
   5.4 Viewing patterns and preferences
   5.5 Peak viewing times
   5.6 Live versus on-demand
   5.7 Viewing of other channels
   5.8 Channel performance
   5.9 Possible causal factors of decline in performance
   5.10 Concluding remarks
6. Young audiences and the shift online

6.1 Introduction
6.2 Demographic breakdown
6.3 Television viewing patterns
6.4 Popular channels
6.5 Programme promotion
6.6 Peak viewing times
6.7 Other media activity
6.8 Device uptake and usage
6.9 Concluding remarks

7. Assessment of core proposal

7.1 Introduction
7.2 Contribution to the public purposes
7.3 Quality and distinctiveness
7.4 Reach among younger audience groups
7.5 Impact on citizens and society
7.6 Success factors of an online offer
7.7 Value for money
7.8 Additional concerns raised by stakeholders
7.9 Concluding remarks

Assessment of other proposals

8. Launch of BBC One +1

8.1 Introduction
8.2 Contribution to the public purposes
8.3 Quality and distinctiveness
8.4 Reach among key audience groups
8.5 Impact on citizens and society
8.6 Value for money
8.7 Concluding remarks

9. Evolution of BBC iPlayer

9.1 Introduction
9.2 Contribution to the public purposes
9.3 Quality and distinctiveness
9.4 Reach among key audience groups
9.5 Impact on citizens and society
9.6 Value for money
9.7 Concluding remarks

10. Extended hours for CBBC

10.1 Introduction
10.2 Contribution to the public purposes
10.3 Quality and distinctiveness
10.4 Reach among key audience groups
10.5 Impact on citizens and society
10.6 Value for money
10.7 Concluding remarks
11. Investment in drama

12. The counterfactual

12.1 Introduction
12.2 BBC Three
12.3 BBC iPlayer
12.4 CBBC
12.5 Concluding remarks

13. Overall Conclusions

Annex I  description of proposals
Annex II  assessment of reach
Annex III  assessment of costs
## Glossary of terms

<table>
<thead>
<tr>
<th><strong>BAME</strong></th>
<th>Black, Asian and minority ethnic groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broadband</strong></td>
<td>Always on, high-speed connection to the internet, capable of supporting high bandwidth services such as video</td>
</tr>
<tr>
<td><strong>Curation</strong></td>
<td>The way in which content is organised and displayed by a content provider such as the BBC</td>
</tr>
<tr>
<td><strong>DTT</strong></td>
<td>Digital terrestrial television (known also as Freeview)</td>
</tr>
<tr>
<td><strong>DVR</strong></td>
<td>Digital video recorder</td>
</tr>
<tr>
<td><strong>EPG</strong></td>
<td>Electronic programme guide</td>
</tr>
<tr>
<td><strong>FRND</strong></td>
<td>Fair, reasonable and non-discriminatory terms</td>
</tr>
<tr>
<td><strong>HD</strong></td>
<td>High-definition</td>
</tr>
<tr>
<td><strong>IP</strong></td>
<td>Internet protocol, a method by which data (e.g. email, video) is sent from one computer to another on the internet</td>
</tr>
<tr>
<td><strong>iPlayer</strong></td>
<td>Online, on-demand catch-up BBC service, which allows users to watch BBC programmes from the previous 30 days</td>
</tr>
<tr>
<td><strong>IPTV</strong></td>
<td>Internet protocol television, digital television delivered over a ‘closed’ IP network infrastructure and engineered to provide service to a high quality to the subscriber</td>
</tr>
<tr>
<td><strong>LFPs</strong></td>
<td>Licence fee payers</td>
</tr>
<tr>
<td><strong>Linear content</strong></td>
<td>Refers to scheduled broadcast television content</td>
</tr>
<tr>
<td><strong>Long-form content</strong></td>
<td>Full-length programmes or episodes, typically more than 30 minutes in duration (also known as long-form programmes)</td>
</tr>
<tr>
<td><strong>MIA</strong></td>
<td>Market impact assessment undertaken by Ofcom to assess the market impact of new BBC proposals. This forms part of the public value test (see PVT)</td>
</tr>
<tr>
<td><strong>Multiplex</strong></td>
<td>A multiplex is a bundle of television services that has been digitised, compressed and combined into a data stream for transmission to viewers over a single channel</td>
</tr>
<tr>
<td><strong>New-form content</strong></td>
<td>New-form content includes but is not limited to text-based content (articles, blogs, tweets), images, video clips, animation, and interactive content that, for example, allow users to vote for or comment on programmes</td>
</tr>
<tr>
<td><strong>NGA</strong></td>
<td>Next-generation access, a significant upgrade to the broadband available, which represents a step-change in speed and quality of the service</td>
</tr>
<tr>
<td><strong>On demand</strong></td>
<td>Allows users to select, stream, download, store and view film and television programmes, usually within a certain timeframe, using a digital cable box or online service</td>
</tr>
<tr>
<td><strong>PVA</strong></td>
<td>Public value assessment undertaken by the Trust to assess the value of BBC proposals including value to licence fee payers, value for money and wider societal value. This forms part of the public value test or PVT (see PVT).</td>
</tr>
<tr>
<td><strong>PVR</strong></td>
<td>Personal video recorder</td>
</tr>
<tr>
<td><strong>PVT</strong></td>
<td>Public value test. Any significant proposals for change from the BBC Executive must be subject to full and public scrutiny. The means by which this scrutiny takes place is the public value test. A PVT is a thorough evidence-based process, which considers both the public value and market impact of proposals. During PVTs, the BBC Trust will consult the public to ensure its decisions are properly informed by those who pay for the BBC.</td>
</tr>
<tr>
<td><strong>Q&amp;A</strong></td>
<td>Questions and answers</td>
</tr>
<tr>
<td><strong>SD</strong></td>
<td>Standard definition</td>
</tr>
<tr>
<td><strong>Service licence</strong></td>
<td>The Trust aims to ensure that the BBC offers high quality and original services for all licence fee payers. To help deliver this, it sets out the remit and expectations for each BBC service – and how that service will create public value – in a published licence.</td>
</tr>
<tr>
<td><strong>Short-form content</strong></td>
<td>Short audio-visual programmes which have a narrative arc</td>
</tr>
<tr>
<td><strong>Simulcast</strong></td>
<td>Simultaneous broadcast, the broadcasting of programmes across more than one medium at exactly the same time</td>
</tr>
<tr>
<td><strong>Smart television</strong></td>
<td>A stand-alone television set with inbuilt internet functionality. Users connect to the internet via a broadband router or modem.</td>
</tr>
<tr>
<td><strong>UGC</strong></td>
<td>User generated content produced by end users as opposed to traditional media producers, broadcasters, publishers etc.</td>
</tr>
<tr>
<td><strong>VOD</strong></td>
<td>Video-on-demand</td>
</tr>
</tbody>
</table>
1. Overall summary

1.1. Introduction

1.1.1. In December 2014, the BBC Executive (hereafter, the Executive) submitted proposals to the BBC Trust for a package of changes to the UK public services, comprising:

- the closure of BBC Three as a broadcast channel and its reinvention as an online-only offer
- the evolution of BBC iPlayer from primarily a catch-up service to one that also offers online-first BBC content and selected third-party content
- the launch of a +1 channel for BBC One
- extended hours for CBBC
- increased investment in drama on BBC One

1.1.2. While the drama investment is not subject to Trust approval, it is linked to the package of proposals. The investment was therefore reflected in the proposals and has been factored into our assessment. The Trust decided that the proposals constituted a significant change to the UK Public Services and that it was therefore required to conduct a public value test before deciding whether or not to approve the change.

1.2. Summary of findings

1.2.1. The proposed closure of BBC Three and its reinvention online was motivated by evidence of a shift in consumption. The observable pattern is one of reduced linear viewing and it is most pronounced among those aged 16-34 and in particular those aged under-25. The performance of BBC Three is in decline and the Executive believes that the BBC needs to respond to retain its reach among this important but generally hard-to-reach group. But the proposal was also underpinned by a need to deliver savings. A downward pressure on funding generated a corresponding need to find savings within the existing portfolio. The Executive did not believe that it could maintain the quality of the main television services through marginal cuts to existing programme budgets. Alongside continued efficiencies, it suggested that sufficient savings within the portfolio could be found only by the closure of a television service.

1.2.2. We therefore needed to consider whether the package of proposals was an appropriate response to the strategic context. In addition to establishing a strategic fit, we also considered the extent to which the overall package and its separable elements advanced the six public purposes.

---

1 The original proposal envisaged the changes taking effect from autumn 2015. This has since been revised to January 2016.
2 In deciding on the question whether the proposed changes are significant, the Trust had regard to the four considerations set out in clause 25(2) of the Framework Agreement, which are impact, financial implications, novelty, and duration.
3 See clause 25(1) of the Framework Agreement.
6 Our consideration of the public purposes can be found in full at section 7, ‘Assessment of core proposal.’
We also had regard to the four drivers of public value, both for the overall package and its separable elements:

- **Quality**: is the proposal high quality and distinctive
- **Reach**: will the proposal maintain or extend BBC reach
- **Impact**: what is the value to licence fee payers and to society as a whole and
- **Value for money**: does the proposal represent an appropriate use of licence fee funds?

The relative importance of each driver of public value varies across different proposals. Our overall assessment in each case is weighted by the significance of each driver for the proposal under assessment. The following table summarises the weight that we attach to the four drivers of public value for the PVA.

**Table 1: weighting the drivers of public value**

<table>
<thead>
<tr>
<th>Driver</th>
<th>BBC Three</th>
<th>BBC One +1</th>
<th>BBC iPlayer</th>
<th>CBBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>Important Important</td>
<td>Important Important</td>
<td>Important Important</td>
<td>Important Important</td>
</tr>
<tr>
<td></td>
<td>The offer must reflect high-quality production values, provide a fresh and distinctive approach, enable access services and ensure clear attribution to the BBC when using third-party sites</td>
<td>The offer should meet audience expectations and increase opportunities to watch BBC One programmes</td>
<td>The proposal should meet audience expectations of quality</td>
<td>The extended hours will provide a further opportunity for 6-12 year-olds to watch high quality programmes shown earlier in the day. As these are repeats, quality in this respect is less relevant to our assessment</td>
</tr>
<tr>
<td>Reach</td>
<td>Very important Very important</td>
<td>Very important Important</td>
<td>Important Important</td>
<td>Important Important</td>
</tr>
<tr>
<td></td>
<td>Likely to result in short-term loss in reach - ability to minimise loss and build reach among a young audience over time (and in particular among underserved groups) is a key driver</td>
<td>The channel needs to demonstrate reach among a younger audience to mitigate the short-term impact of closing BBC Three, and among those without broadband access</td>
<td>Changes are evolutionary, but should help to maintain reach and improve appeal of the core offer</td>
<td>Needs to improve appeal to core audience groups and in particular to children at the upper end of the age range</td>
</tr>
<tr>
<td>Impact</td>
<td>Very important Very important</td>
<td>Important Important</td>
<td>Very Important Important</td>
<td>Very Important</td>
</tr>
<tr>
<td></td>
<td>Impact on younger audiences is key</td>
<td>Ability to provide more value to a younger audience</td>
<td>Changes must enhance the appeal and usage of BBC</td>
<td>Offer needs to help maintain BBC reach among a younger</td>
</tr>
</tbody>
</table>
and those without internet access by offering more flexible ways to catch up on programmes is key and provide a gateway to other BBC content. Audience and deliver value by extending access to children’s programmes

<table>
<thead>
<tr>
<th>Value</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highly relevant driver in the context of financial constraints and a need for increased efficiency</td>
</tr>
</tbody>
</table>

| Important | Offer needs to deliver value for money in the context of financial constraints and a need for increased efficiency |

| Important | Offer needs to deliver value for money in the context of financial constraints and a need for increased efficiency |

| Important | Offer needs to deliver value for money in the context of financial constraints and a need for increased efficiency |

### Strategic rationale

1.2.5. Our assessment of the overall package and its rationale (and in particular the closure of BBC Three as a linear channel and its reinvention online) turned on two central questions, which relate in turn to **reach** and **value for money**:

a. How far and how fast will viewing habits move online and
b. What costs will the BBC save from the closure of the linear channel?

1.2.6. In particular, we needed to determine whether evidence of a shift in consumption was sufficiently strong and sustained to justify a consequent (if short-term) reduction in reach and the risk that longer-term a particular, important but hard-to-reach demographic was lost. We also needed to understand the respective gains and losses in public value for different audience groups that obtain from both the overall package and its separable elements. In particular, we wanted to establish whether the proposals for BBC One +1 and BBC iPlayer helped to mitigate the loss of audience that was likely to result from the closure of BBC Three as a linear channel. We recognise the importance of retaining reach among a younger audience. The key question for this assessment is *not* therefore whether the aims are important (inarguably they are) but the extent to which this proposal will enable the BBC to meet them. We need to ensure that, in closing a channel, the BBC is not abandoning an audience.

1.2.7. In the sections that follow, we summarise our assessment of the separable elements of the package, starting with the core proposal, the closure of BBC Three as a linear channel and its reinvention online.

### 1.3. Closure of BBC Three and its reinvention online

#### Introduction

1.3.1. The decision to move BBC Three online is a future-facing move that few commercial broadcasters would consider at this point in time. It is moreover the first time in its history that the BBC has proposed the closure of a television service. While the proposal is partly driven by financial considerations it is also in response to a structural shift in consumption among a younger audience. The trend in viewing has been towards a shift online with young adults at the vanguard. It is underpinned by clear

---

8 For a full discussion, see sections five ("Background on BBC Three") and six ("Younger Audiences and the Shift Online").
evidence in the last two years of a sharp decline in viewing of the television set by the under-35s, most pronounced among those aged under 25. The proposal for BBC Three could therefore enable the BBC to better prepare for a digital future. But if the transition is too abrupt it puts at risk BBC reach among an important and under-served segment of the audience. This is particularly so given the audience profile of BBC Three, which skews towards younger, more ethnically diverse and lower-income groups (Table 2).

1.3.2. The channel occupies an important place in the television portfolio both in terms of its appeal to these groups (it reaches 25% of 16-34 year olds each week\(^9\)) and a readiness to innovate and take creative risks. On average, 11.2m people watch BBC Three every week of whom c.925K do not use any other BBC television service.\(^11\) Unique reach is proportionately higher among younger viewers, C2DE adults and BAME communities and it is important, given a more general challenge for the BBC to reach these groups.\(^12\)

Table 2: BBC Three demographic groups

<table>
<thead>
<tr>
<th>Demographic group</th>
<th>% of BBC Three viewing</th>
<th>% of overall population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 16-34</td>
<td>42%</td>
<td>25%</td>
</tr>
<tr>
<td>2. BAME</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>3. C2DE</td>
<td>57%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: BARB Data, BBC Trust analysis

1.3.3. Our analysis suggests that the closure of the linear channel will result in a substantial loss in its unique reach and that the online offer will not provide clear, immediate compensation. The proposal could therefore unevenly affect a young audience who may not find a ready substitute elsewhere in the BBC offer.

1.3.4. On the one hand, BBC Three is an obvious candidate to move online. Its service licence gives encouragement to digital innovation;\(^13\) its performance is under pressure; and its audience has a high level of internet access\(^14\) and is far more likely than other age groups to use online video services.\(^15\) On the other hand, not everyone has a reliable internet connection (this is particularly the case for lower income households, those with a disability, BAME groups and rural communities) and for many young people, television still remains important.\(^16\) Our conclusion therefore is that public value is low to medium but we believe that it may be possible to attenuate some of the risk with a well-managed transition and continued access to programmes on the linear schedule.

Quality and distinctiveness

1.3.5. Our expectation is that the offer will be of medium to high quality. There is currently a perception that BBC Three has become less varied and more repetitive with too many

---

9 Enders Analysis, Where Have all the Young Viewers Gone?, 2014, pp.8.
10 Based on 15 consecutive minutes of BBC Three coverage each week. BARB, 2014.
11 Even allowing for those who only watch US imports such as *Family Guy* and *American Dad* unique reach is still c.774k. BARB, 2014.
12 Unique reach is for television only, and does not include BBC radio or online services.
13 BBC Three Service Licence, 2014, pp.3.
15 Ofcom, Adults’ Media Use and Attitudes, 2015, pp.64.
16 For a full discussion, see the Trust’s equality impact assessment published alongside this document.
entertainment programmes that have little educational or factual basis. The proposal therefore aims to increase the distinctiveness and quality of output, by reducing the emphasis on lower cost entertainment and lighter formats, and providing focus on higher quality factual and comedy. We consider that fewer but more innovative titles will benefit the public, particularly as these genres lend themselves to on-demand viewing.

1.3.6. Furthermore, the BBC has a proven record in developing digital offers (notably BBC iPlayer) and high-quality production values that it can bring to an online environment. Nevertheless, the production of high-quality output relies on access to producers, writers and actors and a number of stakeholders assert that this is an area of risk. The historical success of BBC Three rests on its ability to innovate and develop talent, particularly in comedy. The closure of the linear channel may result in less exposure to new shows and some in industry argued that it would make it difficult for the BBC to attract and nurture talent. We also have concerns about the provision of access services for those with auditory and sensory impairments and the level of attribution for BBC content on third-party sites such as YouTube.

Reach

1.3.7. Those aged 16-34 are far more likely than other age groups to use online video services and to do so on a regular basis. Nevertheless, linear promotion drives online consumption and not everyone has access to a reliable internet connection. Near-term reach therefore is a challenge. We forecast that the closure of BBC Three as a linear channel will cause a reduction in overall BBC television reach of 1.3-1.5%. For those aged 16-24 the reduction is greater at 3-3.5%. Furthermore, the Executive suggests that 80% of the uniquely reached BBC Three audience will simply be lost to the BBC, and our analysis supports this.

Impact

1.3.8. Our focus was on the impact of the proposal on young viewers generally but we also had regard to the impact of an online offer on the ability of the BBC to develop talent and build upon the reputation of the linear channel. While we recognise the potential of an online offer to develop new forms of content, we are nevertheless concerned by stakeholder claims that it will have less appeal to producers, writers and actors, which may in turn impact the shows that are commissioned.

1.3.9. BBC Three online will however provide a gateway to the full range of BBC content and this may help to improve its connection with young adults. But while our assessment points towards a shift in the consumption patterns of younger audiences, not everyone has access to a reliable internet connection or wants to watch content online. Television still retains an important place in the media landscape, located in an experience and a mode of viewing that is familiar, effortless and social.

17 BBC Trust, BBC Television Service Review - BBC One, BBC Two, BBC Three & BBC Four, 2014, pp.21 and PAPA, Deliberative audience research into the proposed changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp14.
18 Ofcom, Adults’ Media Use and Attitudes, 2015, pp.83.
19 Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment, 2015, pp.25.
20 For a full discussion, see section six of this report, ‘Younger audiences and the shift online’.
1.3.10. That online consumption is not yet a substitute for linear viewing does not however forestall its potential.\footnote{Assuming any concerns about quality raised by this assessment that might otherwise affect uptake were addressed.} We can see value in an online offer that responds to the structural shift in television viewing and the need to prepare for this shift \textit{today}. But we also recognise that barriers to broader use remain. We categorise these barriers as follows:

(i) \textbf{Awareness}: high visibility, strong brand, ability to attract users in the absence of a linear schedule to drive online consumption

(ii) \textbf{Acceptability}: familiarity, ease of use, ability to satisfy different moods or ‘need states’ and enable shared viewing and a communal, social experience

(iii) \textbf{Accessibility}: a reliable, affordable internet connection or continued access to programmes on the linear schedule for those who do not have this

\textbf{(i) Awareness}

1.3.11. A successful VOD site depends not only on the content it carries but also on the level of awareness. In this sense, brand matters. The linear schedule still plays a central role in directing viewers to on-demand offers that would otherwise struggle to compete. This is because online television services are primarily a \textit{delivery} rather than a \textit{discovery} mechanism. Nevertheless, room exists for discovery and it is young adults who are somewhat more likely to do so.\footnote{For a full discussion, see section five of this report, ‘Background on BBC Three’}. It may be that as these services mature, audiences use them as a destination in their own right, one that facilitates discovery in much the same way that we flick through channels with a remote control today. Over time this behavioural shift may reduce one of the barriers to broader uptake, but in the meantime, linear promotion is important and the impact of its loss is difficult to determine.

1.3.12. The Executive has proposed a range of measures to promote awareness, including a branded BBC Three area on BBC Online, the use of third-party sites and late night slots on BBC One and BBC Two.\footnote{BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.29-30.} We agree that this will help to generate awareness and build an audience that might not otherwise exist. In the case of the linear slots, it will also maximise the availability of content and reach a wider audience – shows that transfer from BBC Three to BBC One and BBC Two generally tend to maintain their share of viewing among young adults.\footnote{BARB, 2015.} However the proposal does not entail a firm commitment to the use of the slots on a permanent basis and we believe this will hamper efforts to build awareness and drive usage. We note moreover, that the use of linear slots would also help to address the remaining two barriers to broader use that relate to \textit{acceptability} and \textit{accessibility} discussed below.

\textbf{(ii) Acceptability}

1.3.13. While young people watch less and they tend to watch later, they nevertheless still \textit{watch}. This may be anchored in the ability of television to satisfy a broad range of audience needs. Core viewers value BBC Three as a reliable ‘go to’ channel that satisfies a particular mood or ‘need state’. Viewing levels for BBC Three rise gradually throughout the evening and peak between 11pm and midnight.\footnote{BARB, 2014.} During this time, viewers tend to prefer a ‘lean back’ experience, which requires minimal effort.
1.3.14. Younger viewers are more likely than other age groups to use on-demand services and somewhat more likely to watch programmes they have not seen on television. What is lacking is an experience that reproduces the essential characteristics of the linear service, one that requires minimal effort and satisfies their desire for a lean back experience that is both communal and social.  

1.3.15. This points to large screens, which enable shared viewing, but in an online world, they must be connected.  

(iii) Accessibility

1.3.16. The final barrier to broader uptake relates to access, that is an affordable, reliable broadband connection with sufficient capacity to provide access to data, voice and video content. There is still some way to go. While over 90% of 16-34 year olds have a household internet connection variations in speed and performance persist. Slow broadband speeds at peak times, download limits or usage caps and multiple devices attached to the same internet connection affect performance and limit uptake. The problem has both a socioeconomic and a geographic dimension. Thus, a move online at this time has to be evaluated in the context of the BBC's duty to provide free to air services universally across the UK (which we refer to as 'universality'). We note that for those who do not have a reliable internet connection, continued access to BBC Three programmes on the linear schedule is one way to address this barrier.

Value for money

1.3.17. The closure of BBC Three as a broadcast channel will release a saving of £60m per annum, of which £30m will be used to fund the new online offer. However, BBC Three online is unlikely to attract a large number of users (at least to begin with). We therefore conclude that this element of the package offers a low level of value for money. We recognise however that low uptake is often the case with new services and consider that the Executive could maximise its investment and reach a wider audience by making content more widely available on linear channels, which would in our view secure greater value for money.

26 For a full discussion, see sections five 'Background on BBC Three' and six 'Younger audiences and the shift online'.
27 A number of different devices can be used to connect a television to the internet, including games consoles, set-top-boxes and BluRay/ DVD players.
31 For a full discussion, see section 7 of this report, 'Assessment of core proposal'.
32 The Executive's own calculations on value for money take account of the use of linear slots (BBC Executive, Public Value Assessment of the Reinvention of BBC Three online and Related Proposals, pp.76). However, the application does not make a permanent commitment to the use of linear slots and so we have not factored them into our analysis.
1.4. **Launch of BBC One +1**

1.4.1. We recognise the need to deliver services in a flexible and convenient way but consider that the proposal is at odds with a broader shift online. For those who want to watch BBC One programmes after they have been broadcast, BBC iPlayer offers much greater flexibility than a +1 channel. Encouraging audiences online to catch up is an important way to stimulate the online transition and BBC One +1 pulls in a different direction. Nevertheless not everyone has broadband access and a +1 channel potentially provides a cost-effective catch-up option.

1.4.2. But the proposal involves some difficult compromises. The putative benefit of BBC One +1 for those without access to BBC iPlayer is undercut by the need for 24% of UK television households to upgrade their equipment in order to receive it. Further, our analysis suggests that the channel will only minimally improve reach among young adults and is unlikely to mitigate the short-term impact of closing BBC Three as a linear channel.33

1.4.3. We recognise that the proposal does carry some public value, given evidence of public support, combined with (albeit small) potential gains in reach, the benefits of wider availability for BBC One content and minimal investment. However, these potential small gains are outweighed by a failure to provide national and regional opt-out programmes and low reach among key audience groups. Taking account of these factors, our overall view is that the proposal offers a low to medium level of public value.

### Quality

1.4.4. BBC One provides a wide range of high-quality output, enjoyed by audiences. We nevertheless consider that the proposed +1 variant will offer only low quality. While BBC One +1 will broaden the *availability* of programmes broadcast on BBC One, by definition they will be repeats of content on the main channel. BBC One +1 would of necessity reflect the editorial values of its parent channel but a failure to provide opt-out programmes weakens the value of the overall offer. Part of the remit of BBC One is to reflect the whole of the UK in its output and the ability to do so forms one of the aims and objectives of the service.34 Audiences attach importance to national and regional output and it has a positive impact on the performance of BBC One.35 While it is clear that the channel will make some contribution to viewing share and reach, it does not satisfy the important criterion of distinctiveness, and the licence fee is specifically designed to liberate the BBC from the need to operate in a way that maximises share.

### Reach

1.4.5. Certain aspects of reach were particularly relevant to our assessment of BBC One +1 – reach among young adults and those without access to BBC iPlayer. Not everyone has access to a reliable broadband connection and a +1 channel provides an alternative for those who do not have, do not want or cannot afford internet access. It is less clear,

---

33 We estimate an increase in reach of 0.2% for the total population and of 0.35% for those aged 16-34. Refer to annex II, ‘assessment of reach’.
34 BBC One Service Licence, 2015, pp.1.
35 BBC Trust, BBC Television Service Review - BBC One, BBC Two, BBC Three & BBC Four, 2014, pp.29.
however, that this group would benefit in practice. The need to broadcast on the PSB-3 multiplex means that the new channel will not be universally available on DTT from launch. Just under a quarter (24%) of all UK households with a television set would need to upgrade their television or set-top box in order to access the channel.

1.4.6. However, DTT is used by the highest proportion of DE households (34%) and those aged over 65 (29%) of all the digital platforms and internet access is lower than average for both of these groups. Our research suggests that 33% of adults in the DE socio-economic group or 41% of those aged over 65 would need to upgrade their equipment in order to receive the service. Furthermore, our quantitative research found that viewing of a +1 channel is proportionately lower among those aged over 65 and members of social grade DE. Given those aged over 65 are less likely to watch +1 channel, even if they had the means to upgrade, they may lack the incentive. Among DE households meanwhile, many of which are the most economically disadvantaged in the country, some may choose not to incur the expense.

1.4.7. We do, however, recognise that BBC One draws a large number of younger viewers and there could be some merit to the proposals if they help to mitigate the short-term impact of closing BBC Three. Among 16-34 year olds, BBC One has a 13.6% share and delivers the largest unique reach of any BBC television channel. However, our analysis suggests that a +1 channel would only minimally improve reach among young adults.

Impact

1.4.8. Our overall conclusion is one of low impact. While the majority of survey respondents were favourable to the proposal, support was lower among 16-24 year olds. Furthermore, consultation responses were divided and industry stakeholders were almost unanimously opposed. Our conclusion therefore is that BBC One +1 will not better serve those who do not have access to BBC iPlayer and will only minimally improve reach among young adults. It is unlikely therefore to provide sufficient mitigation for the loss of BBC Three as a linear channel.

Value for money

1.4.9. The proposal involves the establishment of a new channel at a relatively minimal cost. However, value for money is undermined by only marginal gains among key segments of the audience. Our overall conclusion therefore is that BBC One +1 delivers moderate value for money.

1.5. Evolution of BBC iPlayer

1.5.1. We consider that there is public value in developing BBC iPlayer beyond its original remit. The proposals contribute to the digital purpose and may bring broader benefits

---

Around a fifth of each group (22% and 19% respectively) does not watch plus one television programming compared with 13% of the population in general. ICM, BBC Trust PVT Quantitative Survey, 2015 pp.32.
This is true both among 16-34s and more generally for other age groups.
in terms of their ability to stimulate creativity. Further, by enhancing a service that provides access to the full range of BBC content, the changes will help to safeguard the delivery of all of the purposes in an online world, and in particular the sixth, by broadening its appeal to all users. Our overall assessment is one of medium public value. The proposals will build on the reputation of BBC iPlayer and help to maintain its reach among a younger audience. While incremental reach is low, the overall impact is nevertheless positive, resulting in a stronger and more relevant offer on more flexible terms, delivered at minimal cost.

Quality

1.5.2. We consider that the proposed changes will be of high quality. The introduction of online premieres and the inclusion of selected third-party content respond to the shift towards online viewing and aim to better serve a younger audience. BBC iPlayer is widely regarded as the best television catch-up service in the UK and this was reflected in responses to our public consultation. Many respondents reacted positively to the prospect of more choice and greater flexibility. The introduction of online premieres attracted support and was seen by many (and in particular those aged 16-35) as a way to generate interest, foster conversations and build an audience for new shows.

1.5.3. The inclusion of third-party content meanwhile was broadly welcomed and several respondents praised the proposal for its ambition to showcase emerging talent and provide new artists with an established platform. There were however some concerns about quality and whether (or how) the BBC would moderate content and the Executive would need to address this in the event of an approval. Furthermore, there were concerns about access and reliability and these relate in the main to broadband connections. There was a general concern that the proposal did not signal a more permanent shift online and allied to this was the issue of universality.

Reach

1.5.4. While the changes to BBC iPlayer are likely to have a relatively modest impact on usage and reach, they will help to maintain its appeal in a competitive environment. This aspect of reach is particularly relevant to our assessment and we consider that the introduction of premieres will help to maintain reach and sustain the ability of BBC iPlayer to deliver public value. The impact of third-party content is somewhat more difficult to quantify and we agree with the Executive that it is likely to be of niche rather than mass-market interest.41

Impact

1.5.5. The proposal will have a positive if modest impact on users of the service. Younger viewers are proportionally more likely to use catch-up and a well-curated selection of early releases may help to improve BBC reach among this group. Online premieres are a novel way of building an audience and the proposal is a practical, cost-effective way to generate interest with deeper engagement and more flexible access.

1.5.6. But while a new approach to scheduling can be instrumental in drawing new audiences to BBC content, some caution is required. The linear schedule drives online

---

41 BBC Executive, Public Value Assessment of the Reinvention of BBC Three online and Related Proposals, pp.68.
consumption and without strong promotion, new titles may struggle to attract viewers. We recognise that this area is new and for the BBC mostly untested but our findings do indicate an interest in the proposition among a younger cohort and the potential for online debuts to complement linear viewing with greater choice and more control. Behavioural changes may also help: while catch-up remains the core function of BBC iPlayer and most people use it to find specific titles, it is used by a small number to browse programmes and discover new titles.

1.5.7. We consider that the proposal brings other wider benefits. The directional trend for viewing is online and BBC iPlayer makes an important contribution to the delivery of the public purposes. In a crowded, competitive space, however, it is not enough to offer high-quality programmes. Audiences must be able to find content and be motivated to watch it. The ability of BBC iPlayer to curate content and guide people to titles they may value but would not otherwise find is instrumental in enabling the BBC to deliver its public service remit in an online environment. But in order to guide audiences to content, BBC iPlayer must first attract them. It must retain its relevance and its appeal. It must continue to evolve, taking full advantage of the internet to innovate and improve. The proposals aim to do exactly that and we agree with the Executive that they will help the BBC to deliver its mission in a challenging environment.

1.5.8. We do have some concerns however that those without broadband access will be penalised and foresee a related risk that the widespread use of online premieres could undermine the concept of universality. Given the small scale of the proposals, we think this second risk is minimal. In conclusion, the overall impact while modest is positive, resulting in a stronger and more relevant offer delivered on more flexible terms.

Value for money

1.5.9. The proposals can be implemented with minimal investment. The two cost areas relate to programme rights of [ - REDACTED ] per annum and incremental distribution costs in the region of [ - REDACTED ] per annum. This latter cost assumes c. 62m incremental hours of content consumed on BBC iPlayer by 2017/18. Given the potential benefits in terms of impact and quality, and the low cost of implementation, we conclude that the proposal offers medium to high value for money.

1.6. Extended hours for CBBC

1.6.1. CBBC makes an important contribution to the public purposes with a range of distinctive UK programmes and a good balance between education and entertainment. It remains one of the most watched children’s channels in the UK but performance is under pressure.\(^\text{42}\) The overall pattern in viewing of CBBC among those aged 6-12 is one of decline. Between 2010 and 2014, their average daily viewing minutes dropped from 10.9 to 7.1. This mirrors a broader trend in television consumption among younger viewers and can be traced to changing patterns of media consumption and greater choice. While limited to some degree by the lack of new content investment, the proposal nevertheless may help to sustain viewing by offering greater choice at a time when children are more likely to watch. Extended hours may also help to support the transition of younger viewers to CBBC. While the proposal drew a mixed response

---

from audiences and incremental reach is likely to be low it can be implemented at minimal cost. Our overall view therefore is one of medium public value.

Quality

1.6.2. We consider that the proposal is of medium quality. We can see the value in expanding choice for younger viewers (on DTT the extra hours will be broadcast using some of the spare capacity made available by the closure of BBC Three as a broadcast channel). In the absence of a new programme budget, the value that obtains may be more limited but it does provide a further opportunity to schedule distinctive and high-quality programmes at a time when children are more likely to watch. While the proposal has tended to polarise opinion, it secures greater public value from existing content with minimal investment. We do have some concerns about access to watershed content that may result from the extension and the Executive would need to consider how best to address this.

Reach

1.6.3. The impact on reach of extended hours is likely to be minimal. While the viewing of those aged 6-12 peaks between 7-9pm, children’s channels peak earlier at 5-7pm. This suggests that children tend not to watch dedicated channels later in the evening and may therefore be less inclined to switch to CBBC. Rather, extended hours are more likely to appeal to the smaller number of children who already watch children’s channels at this time. The Executive forecasts an increase in BBC viewing share of 0.03% by 2017 and an increase in BBC television reach of 0.01% and we believe this represents a reliable upper bound estimate. The impact on reach therefore while minimal does help to some extent to militate against a general decline in viewing of CBBC and may support the transition of younger viewers to the channel.

Impact

1.6.4. We recognise the importance of an effective transition for younger viewers and the need to militate against a general decline in their viewing.\(^{43}\) We found however a range of views on the value of extended hours. While around half of all adults considered that the extension could disrupt family routines, regular viewers and those with children tended to agree that it was beneficial.\(^{44}\) While the impact of the proposal is likely to be modest it is nevertheless worthwhile given the potential to retain reach among a young audience. Our overall conclusion therefore is one of low to medium impact.

Value for money

1.6.5. The proposal can be implemented at minimal cost and represents a good use of licence fee funds. There is an implementation cost of [ - REDACTED ] to effect a change in the transmission hours of CBBC but no associated ongoing incremental distribution costs.

\(^{43}\) As highlighted in the BBC Trust, Review of BBC Children’s Services. 2013, pp6.

\(^{44}\) ICM, BBC Trust Public Value Test Quantitative Research Report, 2015, pp. 55.
1.7. **Trust Conclusions**

1.7.1. Funding pressures and a shift in consumption patterns motivated the proposals for BBC Three. Taken however as an overall package, the gains and losses are unevenly distributed. While the proposals in aggregate will cause only a modest reduction of BBC television reach (of between 0.8% and 1%) by 2017, the effects of the closure of BBC Three as a broadcast channel on those aged under-24, BAME communities, and C2DE adults are more pronounced.

1.7.2. Nevertheless, the core proposal for BBC Three has intuitive force and the potential to deliver public value. Viewing patterns are changing and they are most pronounced among those aged 16-34. This group has a high level of internet access and is far more likely than other age groups to use online video services and to do so on a regular basis. Online content plays a central role in their daily lives and many have not experienced a world without the internet. We accept however that the move online is earlier than the Executive would wish for or ideally plan. Not everyone has a reliable internet connection and for many young people, television still retains an important place in the media landscape, one whose strength lies in shared moments and live events that rival platforms cannot match. We note furthermore that the loss of the linear platform may result in less exposure to new shows and that this could make it difficult for the BBC to attract and nurture talent.

1.7.3. The direction of travel is online and we consider that further value could be unlocked with a more gradual transition that has regard to the importance of **awareness, acceptability** and **accessibility**. We recognise furthermore, that the closure of BBC Three as a broadcast channel generates a net saving of £30m per annum, which the Executive plans to use to implement the remaining proposals and to strengthen drama on BBC One, which has been a historic concern of the Trust.

1.7.4. Moreover, the proposals to extend the broadcasting hours for CBBC provide greater flexibility and a transition path for young viewers, while the evolution of BBC iPlayer enhances the current offer with greater choice and more content and both would offer these benefits at a relatively minimal cost. The launch of BBC One +1 would also carry some public value, by providing a cost-effective catch-up option and wider availability of BBC One content, but these potential gains are undermined by a lack of opt-out programmes, limited benefits for those without access to BBC iPlayer, and only minimal improvements in reach among young adults.

1.7.5. We consider that the package overall delivers public value but that we recognise that there are potential barriers that relate to BBC Three online and consider that these should be addressed by the Trust in reaching its provisional decision.
2. Summary of the proposals

2.1. Introduction

2.1.1. The PVT application sought permission for changes to the UK public services, comprising:

- the closure of BBC Three as a broadcast channel and its reinvention as an online-only offer
- the evolution of BBC iPlayer from primarily a catch-up service to one that offers online-first BBC content and selected third-party content
- the launch of a +1 channel for BBC One
- extended hours for CBBC
- increased investment in drama on BBC One of around £30m, part funded by savings from the closure of BBC Three as a broadcast channel

2.1.2. The Executive planned to use the (then estimated) £50m savings from the closure of BBC Three as a linear channel to fund the other changes. While the drama investment is not subject to Trust approval, it is linked to the package of proposals. The Executive has confirmed the financial dependency between the drama investment and the closure of BBC Three as a broadcast channel.

2.1.3. Since we received the application, several aspects of the proposals have been clarified by the Executive, as follows:

a. **First**, the Executive has provided updated estimates of content related costs, which we have used to inform our assessment of costs (see annex III)

b. **Second**, the Executive has confirmed that it is intending to implement the proposals in January 2016 rather than autumn 2015. This was confirmed on 18 May 2015 and therefore this PVA has been drafted on the basis of the original proposals as submitted to the Trust (i.e. on the basis of an implementation date in autumn 2015) but also addresses any impact on public value of a delay to implementation until January 2016.

c. **Third**, the Trust sought clarification from the Executive in relation to how it proposes to address any drop in reach among younger audiences as a result of the closure of BBC Three as a linear channel. In summary, the Executive suggested that a gradual winding down of the linear channel would not deliver the necessary savings, and therefore it preferred a ‘big bang’ moment for the launch of BBC Three. It also indicated plans to use the £30m investment in drama to appeal broadly, but with particular resonance with younger audiences

2.1.4. A full description of the proposals is available at annex I, ‘description of proposals’.

2.2. Closure of BBC Three and its reinvention online

2.2.1. The Executive is now seeking permission to close the linear channel in January 2016 and create in its place an online-only offer targeted at 16-34 year-olds. The content budget for the new service will be c. £30m per annum (excluding news and sports and content-related costs). In the first year, around 80% of the budget will be used to

---

45 The original proposal envisaged the changes taking effect from autumn 2015. This has since been revised to January 2016.
commission long-form programming, such as *Life and Death Row* and *Cuckoo*. The remaining 20% will be devoted to short and new-form content.\(^{46}\)

2.2.2. BBC Three Online will offer news and sport in collaboration with other parts of the BBC. It will also collaborate with other BBC services to provide an editorial perspective on major sporting events and festivals and in particular with Radio 1 to develop new talent, cross-commission and produce short-form content.

### 2.3. Launch of BBC One +1

2.3.1. The Executive would like to launch a +1 channel for BBC One. The new service, BBC One+1 would broadcast 24 hours a day, seven days a week in standard definition. The service would show BBC One programmes one hour later than BBC One, except that, when BBC One shows a programme from the nations or regions, BBC One+1 would instead carry the BBC News channel.

2.3.2. BBC One+1 would be broadcast on all television platforms: DTT (Freeview, YouView) cable (Virgin) and satellite (Sky, Freesat). However, on DTT from launch, BBC One+1 would only be available to households with a YouView or Freeview HD television or set-top box. This is because the service on DTT would be broadcast on the PSB-3 multiplex and households would need a YouView or Freeview HD television or set-top box in order to receive it.

2.3.3. The proposal included a plan to migrate BBC One +1 to multiplex PSB-1, which is available to all DTT households, in 2017. However this was contingent on future encoding efficiencies and as such the Executive could not offer a firm commitment. We therefore considered the plan to be an aspiration rather than a firm commitment and did not factor it into our analysis.

### 2.4. Evolution of BBC iPlayer

2.4.1. The Executive would like to increase the amount of online-only content in BBC iPlayer (as part of its proposals for BBC Three) and, as part of a wider strategy, improve the curation, prominence and availability of its content. In addition to its plans for BBC Three, the Executive plans to evolve BBC iPlayer in two specific ways:

- to premiere some programmes on BBC iPlayer (before they are broadcast on a linear service)
- to include selected content commissioned by third parties

### 2.5. Extended hours for CBBC

2.5.1. The Executive wants to use the capacity made available by the closure of BBC Three as a broadcast channel to extend the broadcast hours for CBBC by two hours, from 7pm to 9pm. It hopes that the extension will enable the BBC to better meet the viewing needs of the audience as television reach for 6 to 12 year old audience peaks.

---

\(^{46}\) Short-form content can be defined as short audio visual programmes (e.g. BBC Three comedy feeds or BBC drama shorts) which have a narrative arc. New-form content includes but is not limited to text-based content (articles, blogs, and tweets), images, video clips, animation and interactive content (that allows, for example, users to comment or vote on content). **BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.10.**
between 7pm and 9pm, after CBBC closes. Under the proposals, the first hour would be used for programmes with appeal for 6 to 9 year olds and the second hour for programmes which appeal to the older 10 to 12 year old audience. The Executive is not proposing an increase to the current content budget for CBBC. During the extended two hours, the schedule would run repeats of such programmes as Wolfblood and The Dumping Ground.

2.6. Investment in drama

2.6.1. The Executive plans to strengthen drama on BBC One with an additional investment of c. £30m, which would be funded by the proposed closure of BBC Three as a broadcast channel. While the investment is not subject to Trust approval, it is linked to the package of proposals. The Executive has confirmed the financial dependency between BBC One investment and the closure of BBC Three as a broadcast channel. The investment was therefore reflected in the proposal. The Executive plans to use the additional drama funding on shows that appeal broadly, but with a particular resonance for younger audiences.

2.7. Overall costs

2.7.1. When the Executive originally announced its proposal it estimated savings of at least £50m from the closure of the BBC Three linear channel. This estimate was calculated using the most recent BBC Three service licence available less any allocated costs such as copyright payments and sport as these would need to be redistributed among other BBC services if the channel closed. The Executive confirmed that this reallocation would not impact materially on the content budget of other services. It was anticipated that some of the gross saving would be used to reinvest in BBC Three online. Table 3 contains a more recent estimate and shows the net saving after deducting investment in BBC Three Online. The Executive intends to use this saving to implement the remaining proposals and to strengthen drama on BBC One.

Table 3: estimated on-going annual saving net of re-investment - rounded

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC Three broadcast channel budget excluding allocated costs (based on 2014-15 budget)</td>
<td>60</td>
</tr>
<tr>
<td>Investment in BBC Three Online (table b)</td>
<td>-30</td>
</tr>
<tr>
<td><strong>Net saving</strong></td>
<td>30</td>
</tr>
<tr>
<td>BBC One +1cost (excluding distribution costs) (table c)</td>
<td>[ - REDACTED ]</td>
</tr>
<tr>
<td>BBC iPlayer cost (table d)</td>
<td>[ - REDACTED ]</td>
</tr>
<tr>
<td>CBBC cost (table e)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Amount available for reinvestment in BBC One Drama</strong></td>
<td>c.28</td>
</tr>
</tbody>
</table>

47 BARB, 2014.
3. Approach to this assessment

3.1. Introduction

3.1.1. The BBC exists to serve the public interest and its main object is the promotion of the public purposes. The BBC is publicly funded by the licence fee and uniquely valuable, with a universal obligation to serve all audiences, including in particular hard-to-reach groups.

3.1.2. The purpose of this assessment is to ascertain the likely public value of the package of proposals related to the closure of BBC Three as a linear channel. It includes an assessment of the value that licence fee payers would place on the proposed changes, the value they deliver to society as a whole through their contribution to the public purposes and the value for money of the proposed changes and their cost, including the potential financial implications if the change were not made.

3.1.3. As the nature of likely or potential public value can differ widely depending on the nature of the change, the Trust must, at the onset, consider very carefully the aspects of public value most relevant to the proposal and how those aspects should be evaluated. We think in this case, public value should primarily be assessed over a five-year period although we acknowledge that it can also be relevant to consider the value that is likely to accrue beyond this point.

3.2. Applying the public value test

3.2.1. The public value test (PVT) is a key component of the BBC’s system of governance, which took effect when the Charter and Agreement came into force on 1 January 2007. The Agreement provides that the BBC should be able to alter its UK Public Services, for example to respond to changes in technology, culture, market conditions and public expectations. However, any proposals from the Executive for a significant change must be subject to full and proper scrutiny. The means by which this takes place is the PVT. 48

3.2.2. The PVT is a rigorous, evidence-based process featuring two consultation periods. It is used to assess both the public value and the market impact of the proposals and comprises:

- a public value assessment (PVA) which assesses the public value expected to be created by the offering and is undertaken by the Trust.
- a market impact assessment (MIA) which assesses the effect of the proposals on providers of alternative products and services, and is undertaken by Ofcom.

3.2.3. The assessment commenced with a four-week period of public consultation on the proposals in January 2015. During this period, the Trust and Ofcom invited representations on both the public value and the market impact of the proposals. As part of the PVA, the Trust also conducted an equality assessment in order to consider how, and to what extent, the proposals would, if approved, affect particular sections of

---

the BBC’s audience.\textsuperscript{49} The findings from the PVA and the MIA inform the provisional conclusions, which are published by the Trust, alongside this document, and subject to a period of consultation.

3.2.4. The findings from the second consultation will guide the Trust in reaching its final decision. The Trust must (in particular) be satisfied that any likely adverse impact on the market is justified by the public value generated.\textsuperscript{50} Further, it must also be satisfied that the approval is consistent with the Trust’s duties (including those under Articles 22 and 23 of the Charter).

3.3. **Methodology**

3.3.1. On receipt of the Executive’s application, the Trust drafted a service description which was agreed with the Executive prior to publication. This clarified our understanding of the proposal under assessment. The service description was published at the start of the PVT process. We draw upon it throughout this report (a copy can be found at annex I, ‘description of proposals’).

3.3.2. As permitted within the Trust’s PVT guidance, we met with the Executive and requested clarifications and further information to understand better the evidence submitted in support of the proposals.\textsuperscript{51} We then considered the strategic context which gave shape to the proposals. We also had regard to the public purposes and the likely reach, quality, impact and value for money of both the overall package and its separable elements.

3.3.3. Our central assessment is of the closure of BBC Three as a linear channel and the launch in its place of an online offer. We have also considered the counterfactual: what would happen if the proposals were not approved and BBC Three continued to operate as a linear channel over a five-year period, under the terms of the bbc.co.uk service licence. Our conclusions and recommendations on the PVA are presented in section 13.

3.4. **Sources of evidence**

3.4.1. In undertaking this assessment, we have drawn on evidence from a variety of sources:

a. **The Executive**

As part of our assessment, we met with the Executive, both to discuss its position and better understand the proposals. We also sought further clarification on various elements of the application where necessary.

b. **Industry and Organisational Stakeholders**

We sought representations from industry and organisational stakeholders and received 20 submissions. A list of stakeholders and the full text of all the non-confidential consultation responses is published alongside this document. In addition to considering written responses, we conducted a series of meetings with stakeholders to gain further insight into their views on the proposals.

\textsuperscript{49} See the Trust’s equality impact assessment published alongside this document.  
\textsuperscript{50} BBC Agreement with Her Majesty’s Secretary of State for Culture, Media and Sport - Clause 26(6), 2006, pp.13.  
c. **The General Public**

The Trust received 23,849 responses to its consultation from members of the public. We also received a 272,000 signature petition from the SaveBBC3 campaign. These responses have been used to inform the PVA. A report summarising the consultation responses from the general public is published alongside this document.

d. **Audience Councils**

We invited the Audience Councils\(^{52}\) to make representations on the package of proposals and these are published alongside the responses we received from industry and organisational stakeholders.

e. **Trust Unit Analysis**

We also relied on a range of secondary evidence, including, inter alia, reports and data from Ofcom, Enders Analysis, Oliver & Ohlbaum, Communications Chambers, Kantar, Office for National Statistics (ONS), Thinkbox, the BBC and primary quantitative research based on a sample of 3000, commissioned by the Trust from ICM, an independent research consultancy, and published alongside this document.

From our own analysis – following a preliminary assessment of the application submitted by the Executive – we examined the evidence base and the strategic context, tested underlying assumptions, and requested further information as required. While drawing on evidence provided by the Executive (in particular, the PAPA PVT report) we recognise some of the limitations with smaller studies however well executed, in predicting future behaviour. We therefore commissioned a quantitative study from ICM to gain a deeper insight into whether the proposal would deliver value. In considering the future behaviour of younger audiences and their likelihood to use the proposed offer for BBC Three, we found a striking consistency between different studies, even where the sample sizes were relatively low.

In relation to the package of proposals as a whole, we also considered the extent to which they would properly reflect the diversity of the audience and, in particular, whether they would duly serve particular parts of that audience. This is part of the obligation on the BBC to represent the UK, its nations, regions and communities, and its commitment to the BBC’s diversity strategy, in addition to having regard to the public sector equality duty. This was undertaken in our equality impact assessment published alongside this document.

### 3.5. **Information sharing**

3.5.1. Throughout the process, the Trust and Ofcom discussed the proposals under assessment while always being aware of the different roles each was performing and maintaining independence and confidentiality. Information was shared except where submitted in confidence or where otherwise commercially sensitive in order to ensure that the PVA and MIA were conducted on the same factual basis. It should be noted that the Framework Agreement specifically established the joint steering group (comprising members of the Trust and Ofcom) to ensure that the MIA is conducted in a manner appropriate to the PVT and to a suitable schedule. This PVA has been developed independently without the input of Ofcom.

---

\(^{52}\) The Royal Charter provides that the Audience Councils’ remit includes being consulted on proposals required to be the subject of a PVT: article 39(6)(b).
3.6. **Clarifications from the Executive**

3.6.1. As part of the process, as noted above, we requested clarifications on the proposals from the Executive and factored these into our analysis, as set out above at section two.

3.6.2. Having set out our methodology and approach, in the section that follows, we consider the external context and how this has shaped the package of proposals under assessment.
4. Strategic rationale

4.1. Introduction

4.1.1. An important part of our assessment of public value is the external context and the extent to which the package of proposals supports strategic goals. A combination of factors has hampered the ability of BBC to discharge its obligations to serve all audiences while maintaining the quality of its core services. The proposals are designed to respond to three challenges in particular:53

- Falling income
- Changing television landscape
- Changing audience consumption

4.2. Falling income

4.2.1. The need for the BBC to deliver savings partly underlies the proposed closure of BBC Three and its reinvention online. A downward pressure on funding has generated a corresponding need to find savings within the existing portfolio. The amount of funding available for the BBC to spend on its UK public services will be 26% less in real terms than it would otherwise have been by 2016/17, as a result of the licence fee freeze and obligations placed upon the BBC by the Government in 2010.54 The Executive does not believe that it can maintain the quality of the main television services through marginal cuts to existing programme budgets. It suggests that sufficient additional savings within the portfolio could be found only by the closure of a television service.

4.3. Changing television landscape

4.3.1. A difficult operating environment and growing competition from global players have put at risk the ability of the BBC to maintain reach. While live viewing remains, by some margin, the preferred way of watching television (and the most effective way for the BBC to deliver its public service mission) broadband uptake, coupled with improved speeds and a growth in connected devices have paved the way for new online video services, which in turn are shaping the way in which people select and view video content.

4.3.2. Catch-up services are widespread and widely used. Broadcasters and platform operators have launched or expanded online offers. There is growth in digital and specialist channels competing for audiences, while global media brands (such as Netflix and Amazon) have entered the market offering subscription on-demand services and investing heavily in flagship commissions.55 As smartphones and tablets approach mass adoption, they not only offer new ways to watch video content and listen to

54 The 2010 settlement froze the current licence fee for six years and imposed additional obligations on the BBC: the cost of funding the World Service and BBC Monitoring, some of the costs for the Welsh language television channel S4C, support for broadband rollout and the establishment of commercial local television services across the UK. As a result, in 2016/17, the BBC will have less to spend in real terms on its existing services.
55 The strategy has proved successful. Netflix is in 10% of UK households and accounts for 17.8% of peak internet traffic, second only to YouTube (at 19.9%). Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment, 2015, p.16.
music but also introduce the consumer to new activities from gaming to social networking.

4.4. **Changing consumption patterns**

4.4.1. While the broadcasting ecosystem has shown remarkable resilience, it is not immune from the threat posed by newentrants and new technology. Live television is predictably a casualty of greater choice. While BBC share is reasonably robust (at around a third of all television viewing in the UK), reach is more of a challenge and has fallen in recent years at a greater rate than for television as a whole. The ability of the BBC to reach a younger audience has taken a corresponding hit: 16-24s watch 18% less television than four years ago and declines are sharpest among C2DE adults and black, Asian and ethnic minority groups.\(^{56}\)

4.4.2. The proposals for BBC Three are a direct attempt to retain reach among an important but under-served demographic. The observable pattern is one of reduced linear viewing and it is most pronounced among those aged 16-34 and in particular those aged under 24. But while younger adults today watch significantly less television than several years ago, it still retains an important place in their media landscape. More recent larger declines in viewing may therefore owe something to life stage. There is a range of views and no clear consensus. Some believe that the sharp decline in viewing among young adults is permanent in character. Others suggest that young viewers are simply experimenting with new media and that their level of activity will adjust as they grow older.\(^{57}\)

4.5. **Concluding remarks**

4.5.1. The changing consumption patterns of young adults are particularly challenging and have put at risk the ability of the BBC to deliver its public service mission. The BBC must therefore find ways to modernise its portfolio in a financially challenging environment. Nevertheless the proposed closure of BBC Three as a broadcast channel is earlier than the Executive would wish for or ideally plan and it will result in a reduction in reach among young adults, at least in the short-term. We therefore needed to determine whether evidence of a shift in consumption was sufficiently strong and sustained to justify a consequent (if short-term) reduction in reach and the risk that longer-term (and more fundamentally) a particular demographic is lost. We also needed to understand the gains and losses in public value for different audience groups that result from both the overall package and its separable elements.

4.5.2. It is clear that a growth in connectivity has exerted a pressure on linear viewing. The BBC has a duty to serve all audience groups and an online offer for young viewers has intuitive force. Less clear is whether the proposals for BBC Three have proper regard to the continued importance of television or to those who lack a reliable internet connection. These questions are the focus of the sections that follow, starting with a snapshot of BBC Three, its remit, recent performance and place within the television portfolio.

\(^{56}\) BARB, 2014.

\(^{57}\) For a full discussion, see section 6 of this assessment, ‘Younger audiences and the shift online’. 
5. Background on BBC Three

5.1. Introduction

5.1.1. The BBC has faced a long-standing challenge to serve younger audiences, one that is further complicated by the immutable fact that this group is leading the shift to online services. How then does the central proposal (the closure of BBC Three as a broadcast channel and its reinvention online) affect BBC obligations to better reach young underserved groups? In order to answer that, we need to understand the relative strengths of BBC Three and its place within the broader BBC portfolio.

5.2. Launch and rationale

5.2.1. Launched in 2003, with a remit to bring younger and more diverse audiences to BBC content, the principal aims of BBC Three are to offer high-quality, original, challenging, innovative and engaging programmes, and to nurture UK talent. The channel provides a mixed schedule encompassing hourly news bulletins, current affairs, drama, entertainment, music, arts and factual programming. It also shows repeated episodes of other series from BBC One and BBC Two (such as EastEnders) and has purchased US acquisitions, such as Family Guy and American Dad.

5.2.2. BBC Three serves as a valuable test bed for new UK talent and is credited with introducing award-winning shows, such as Little Britain and Murdered by My Boyfriend. In its 12-year history, the channel has won nine BAFTAs, five comedy awards, 15 Royal Television Society awards and five Roses D’or awards.

5.3. Audience profile

5.3.1. BBC Three occupies an important place in the television portfolio both in terms of its appeal to hard-to-reach groups (it reaches 25% of 16-34 year olds each week and a readiness to innovate and take creative risks. An ability to reach 16-34 year olds is particularly important given declining reach among younger audiences for other BBC television channels. On average, 11.2m people watch BBC Three every week of whom c.925K do not watch any other BBC television service. Unique reach is proportionately higher among young viewers, C2DE adults and BAME communities and it is important, given a more general challenge for the BBC to reach these groups.

5.3.2. Between 2010 and 2014, unique reach as a percentage of the total population increased from 1.2% to 1.6%. The on-screen portrayal of different minority groups by BBC Three may help to explain gains in this area. A review by the Trust in 2014 found that BBC Three was viewed positively for its relevance for different ethnic groups. This is fortified by research from ICM which found that ethnic minority groups

---

58 Those aged 16-34, in lower income groups, and black, Asian and minority ethnic communities. BARB, 2014.
59 BBC Three Service Licence, 2014, pp.2.
60 The BBC will no longer have the rights to new seasons of Family Guy and American Dad going forward.
61 Based on 15 consecutive minutes of BBC three coverage each week. BARB, 2015.
62 Even allowing for those who only watch the US imports Family Guy and American Dad, unique reach is still high at c.775k. BARB, 2014.
63 BARB, 2014.
tend to identify more strongly with the channel; 53% feel that it is aimed at them, some way above white audiences at 38%. It is certainly true that the audience profile of BBC Three broadly matches the proportion of BAME viewers and the population overall, particularly when compared with other BBC channels (Figure 2).

Figure 2: UK population versus audience profile by ethnicity

5.3.3. On both age and income, the audience profile of BBC Three skews towards younger viewers and C2DE adults. Those aged 16-34 account for 25% of the overall population and 42% of the audience for BBC Three (Figure 3) while C2DE groups account for 46% of the population and 57% of the audience (compared with 49% of the audience for BBC One). Younger audiences tend to identify more strongly with BBC Three: 68% of 16-24 year olds and 54% of those aged 25-34 feels that the channel is aimed at them, compared with 40% of all adults.

5.3.4. Another valuable measure is the ability of BBC Three to draw new audiences to the BBC. Just over 5% of those aged 16-24, the equivalent of 360,000 viewers, watch BBC Three and use no other BBC television service. By contrast, the audience profile of BBC One reveals a pronounced gap between those aged 16-34 and the population overall, although the channel draws a larger number of younger viewers in absolute terms. Among 16-34 year olds, BBC One has a 13.6% share (and a 21% overall share) compared with 3.2% for BBC Three (and 1.5% overall share). It also delivers the largest unique reach of any BBC channel, the equivalent of 1.19m 16-24 year olds per week. We note however that the programmes watched by a younger audience on BBC One tend to be hits with mass appeal, such as *EastEnders, Sherlock, The Voice* and *The Apprentice* rather than those specifically targeted at a younger audience.

---

64 ICM, BBC Trust Public Value Test Quantitative Survey, 2015 pp.16.
65 ICM, BBC Trust Public Value Test Quantitative Survey, 2015, pp.16.
66 Unlike BBC One, however, BBC Three only broadcasts from 7pm until 3am. BARB, 2014.
67 BARB, 2014.
68 BARB, 2014.
5.4. Viewing patterns and preferences

5.4.1. BBC Three plays an important role in the entertainment mix of its audience. For a core of regular viewers it offers a strong strand of ‘appointment to view’ television, from *Don’t Tell the Bride* to *Murdered by My Boyfriend* and *American Dad*. For regular viewers, it is valued as a reliable go-to channel that suits a particular disposition. Research conducted by PAPA for the Executive found that viewers were often motivated to watch by their ‘need state’ and this was thought by many to be its strength.\(^6^9\)

5.4.2. Viewing of the channel is relatively concentrated. The top 10 programmes in 2014 accounted for 40% of programme coverage and the top three for just over 20% (Table 4). Entertainment programmes such as *Family Guy*, *American Dad* and light factual formats such as *Don’t Tell the Bride* account for the majority of viewing.

Table 4: top 10 programme titles on BBC Three (2014), all viewers

<table>
<thead>
<tr>
<th>Programme title</th>
<th>Genre</th>
<th>% of Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAMILY GUY</td>
<td>ENTERTAINMENT</td>
<td>11.8</td>
</tr>
<tr>
<td>AMERICAN DAD</td>
<td>ENTERTAINMENT</td>
<td>5</td>
</tr>
<tr>
<td>DON’T TELL THE BRIDE</td>
<td>ENTERTAINMENT</td>
<td>4.4</td>
</tr>
<tr>
<td>COMMONWEALTH GAMES</td>
<td>SPORT</td>
<td>4.2</td>
</tr>
<tr>
<td>TOP GEAR</td>
<td>FACTUAL ENTERTAINMENT</td>
<td>3.5</td>
</tr>
<tr>
<td>EASTENDERS</td>
<td>UK SOAPS</td>
<td>3.0</td>
</tr>
<tr>
<td>RUSSELL HOWARD’S GOOD NEWS</td>
<td>FACTUAL ENTERTAINMENT</td>
<td>2.8</td>
</tr>
<tr>
<td>BAD EDUCATION</td>
<td>COMEDY</td>
<td>2</td>
</tr>
<tr>
<td>DOCTOR WHO</td>
<td>UK DRAMA</td>
<td>1.8</td>
</tr>
<tr>
<td>THE CALL CENTRE</td>
<td>FACTUAL ENTERTAINMENT</td>
<td>1.3</td>
</tr>
</tbody>
</table>

5.4.3. But this masks significant variations in viewing preference at a sub-group level. In the audience overall, the top performing titles on BBC Three typically comprise one-off films and sporting events. For those aged 16-34 however, there is a greater focus on the regular schedule (much of which is UK original programming) with titles such as *Family Guy*, *The Call Centre*, *Bad Education*, and *60 Seconds* accounting for eight of the top 10 programmes.

---

\(^{69}\) PAPA, Deliberative Audience Research into the Proposed Changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp16.
5.4.4. Perhaps because of this, younger viewers are more likely to rate BBC Three more highly than the audience overall. Certainly, the 2014 review of television services found that perceptions of quality were mixed. While acquired entertainment and comedy (such as *Family Guy* and *American Dad*) were popular and less frequent documentaries highly valued, some viewers associated the channel with repeats. Among heavier viewers, however, it scored highly for original programmes, use of new talent and an ability to tackle a wide range of complex subjects in engaging ways. The review also found that audiences valued the way in which BBC Three portrayed ethnicity, religion, and sexuality.

5.5. **Peak viewing times**

5.5.1. Viewing levels for BBC Three rise gradually throughout the evening (the schedule runs from 7pm) and peak between 11pm and midnight, after which there is a rapid decline in the overall audience (Figure 4). This compares with a much earlier peak for the BBC portfolio overall, which falls between 8pm and 10pm.

Figure 4: *BBC Three peak viewing times*

5.6. **Live versus on-demand**

5.6.1. There is no observably different pattern in the use of BBC iPlayer by the BBC Three audience. Despite a shift online, live television accounts for 82% of BBC Three viewing, only four percentage points behind BBC One (Table 5). BBC Three catch-up viewing peaks between 9pm and midnight, slightly later than overall BBC catch-up viewing, which falls between 8pm and 10pm. Younger viewers of BBC Three are, however, significantly more likely than the overall audience to watch programmes on-demand. Thirty-seven per cent of 16-24 year olds and 33% of those aged 25-34 watch BBC Three programmes in this way, reflecting a broader trend in viewing patterns among a younger audience.°

5.6.2. In terms of genres, scripted comedy, light factual and drama account for the majority of BBC Three catch-up viewing on BBC iPlayer. Three series, *Bad Education*, *Some Girls* and *Ja’mie: Private School Girl* (which all performed well in the linear schedule), secured the highest proportion of viewing in BBC iPlayer in 2014, accounting for 14% of requests, while the one-off drama *Murdered by My Boyfriend* attracted just over three million requests.° The idea that some genres perform better than others

° ISTATS, requests for television programmes from BBC iPlayer, 2014.
corresponds with 2014 research by Ofcom which found that, among digital video recorder (DVR) owners, time-shifted viewing varies by programme type. While some genres, such as news and sports, depend upon live viewing, others, such as drama and soaps, are more likely to be recorded or watched on catch-up services.\(^{72}\)

**Table 5:** *live versus time shifted and iPlayer viewing (Q1 2015)*

<table>
<thead>
<tr>
<th>Channel</th>
<th>Live</th>
<th>VOSDAL</th>
<th>Time shift</th>
<th>iPlayer</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL BBC</td>
<td>85%</td>
<td>6%</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>BBC ONE</td>
<td>86%</td>
<td>6%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>BBC THREE</td>
<td>82%</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**5.7. Viewing of other channels**

5.7.1. The majority of BBC Three viewers watch a range of other channels and this is more pronounced among those aged 16-24 whose viewing habits are generally more varied. BBC One attracts the highest share of viewing for light, medium and heavy viewers and PSB channels make up the top five viewed channels for all viewers (Sky Sports 1 and Dave are the only non-PSB channels to feature in any top 10 channels).

**Table 6:** *top channels for BBC Three viewers*

<table>
<thead>
<tr>
<th>Light</th>
<th>Medium</th>
<th>Heavy</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC 1</td>
<td>BBC 1</td>
<td>BBC 1</td>
</tr>
<tr>
<td>ITV</td>
<td>ITV</td>
<td>ITV</td>
</tr>
<tr>
<td>BBC 2</td>
<td>BBC 2</td>
<td>BBC 2</td>
</tr>
<tr>
<td>CH4</td>
<td>CH4</td>
<td>CH4</td>
</tr>
<tr>
<td>CH5</td>
<td>CH5</td>
<td>CH5</td>
</tr>
<tr>
<td>ITV3</td>
<td>ITV3</td>
<td>ITV2</td>
</tr>
<tr>
<td>SKY SPORTS 1</td>
<td>ITV2</td>
<td>E4</td>
</tr>
<tr>
<td>ITV2</td>
<td>E4</td>
<td>ITV3</td>
</tr>
<tr>
<td>CBEEBIES</td>
<td>ITV4</td>
<td>FILM4</td>
</tr>
<tr>
<td>S USA</td>
<td>BBC NEWS</td>
<td>DAVE</td>
</tr>
</tbody>
</table>

**5.8. Channel performance**

5.8.1. BBC Three faces heavy competition from commercial rivals for an audience that the BBC has traditionally had difficulty in attracting. Performance is in decline and it is most pronounced among key sections of the audience - lower income households, younger viewers and black, Asian and minority ethnic groups. While weekly reach was largely stable between 2010 and 2012, the channel experienced a post-Olympics dip in 2013 followed by further declines the following year (Figure 5). Between 2010 and 2014, average weekly reach among those aged 16-34 fell by four percentage points to 25%.\(^{73}\) Among C2DE and BAME groups it fell by 4% and 6% respectively over the same period.\(^{74}\)

---


\(^{73}\) From 29% to 25% for 16-24s, and from 29% to 25% for 25-34s, BARB, 2010-14.

\(^{74}\) Reach can follow different trajectories. So while overall reach among these groups is in decline, unique reach is growing. BARB, 2014.
5.9. Possible causal factors of performance decline

5.9.1. In parallel, the content budget for BBC Three has been reduced, with a corresponding reduction in the hours of UK originations shown on the channel. Between 2010 and 2013 original productions (as percentage of all hours) fell from 83% to 76%. Funding for BBC Three drama was reduced to one original series each year while funding for factual and entertainment was cut. It is not easy to identify a causal relationship between budget reductions and declining performance. A structural shift in consumption may account for at least some of the decline and the fall in BAME viewers may be linked to these broader trends.

It is certainly possible to locate the debate within a broader context of overall decline in channel share among younger adults. Between 2012 and 2014, BBC Three, which has a 1.4% share of the overall television audience, saw its share of 16-34 year olds decline by 0.3 percentage points, from 3.5 to 3.2%. Over the same period, BBC One, Channel 4 and Channel 5 suffered similar losses (Table 7).

Table 7: channel share of BBC Three compared to BBC and other digital channels

<table>
<thead>
<tr>
<th>Adults 16-34</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC ONE (SD +HD)</td>
<td>14.4</td>
<td>13.9</td>
<td>14.4</td>
<td>13.2</td>
<td>13.6</td>
</tr>
<tr>
<td>BBC TWO</td>
<td>4.5</td>
<td>4.1</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>ITV (SD + HD)</td>
<td>13.5</td>
<td>12.7</td>
<td>11.6</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>CHANNEL 4</td>
<td>7.9</td>
<td>7.3</td>
<td>6.8</td>
<td>6.4</td>
<td>6.4</td>
</tr>
<tr>
<td>CHANNEL 5</td>
<td>4.1</td>
<td>4.1</td>
<td>4.1</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>BBC THREE(^{77})</td>
<td>2.8</td>
<td>3.1</td>
<td>3.5</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>BBC FOUR</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
<td>0.3</td>
<td>0.4</td>
</tr>
</tbody>
</table>

5.9.2. The underlying cause of the decline may owe something to budget reductions. It is reasonable to assume some sort of relationship between the programme budget, the quality of output and audience size. Certainly, a 2014 review by the Trust uncovered a

\(^{75}\) In 2010/11, the total content budget (including news and sport and other content-related costs) for BBC Three was £84.7m. This fell to £81m in 2013/14. BBC Trust, Public Value Test, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.9.

\(^{76}\) As the proportion of young adults who are BAME is higher than it is amongst older age groups. BARB, 2014.

\(^{77}\) Unlike BBC One, however, BBC Three only broadcasts from 7pm until 3am. BARB, 2014.
perception that BBC Three was becoming less varied and more repetitive. Some questioned its public value, while others were critical of entertainment programmes that had little educational or factual basis. More recent research by PAPA conducted for the Executive also found a perception that the service was becoming less varied and more repetitive with too many entertainment programmes. There were also traces of this general perception in our consultation findings.

5.10. Concluding remarks

5.10.1. Having surveyed BBC Three, its remit, recent performance and place within the television portfolio, we turn next to the audience that it aims to serve, those aged 16-34, to better understand how well the proposed offer responds to their needs.

---

78 PAPA, Deliberative audience research into the proposed changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp14.
6. Young audiences and the shift online

6.1. Introduction

6.1.1. Before we can assess the value of the core proposal (the closure of BBC Three as a linear channel and its relaunch online) we need to better understand the audience that it aims to serve, those aged 16-34. This is particularly so given that the closure of the linear channel is anchored in the understanding that this group is leading the move online.

6.2. Demographic breakdown

6.2.1. The BBC has a duty to serve all audiences and those aged 16-34 form a significant portion of the population. There are around 15 million 16-34 year-olds in the UK (c. 25% of the population) of whom just under seven million are aged 24 or under. This is a diverse group, covering a number of life-stages, from teenagers living at home to students, job seekers, established professionals and young parents. Two characteristics of this group in particular carry a special significance for the BBC. They are more varied ethnically than the population overall with a higher proportion of individuals from black and ethnic groups and they are less likely to watch television (a trend most pronounced among those aged under 25).

6.3. Television viewing patterns

6.3.1. Viewing patterns are changing and they are most pronounced among those aged 16-34, and in particular those aged under 25. The debate has centred on whether the changes represent lifestyle stages or a durable structural shift. There is no shortage of evidence to support the view that a shift is underway, but television has remained, on the whole, remarkably resilient.

6.3.2. Look closer, however, and a more complex picture emerges. A 2014 study by Enders Analysis found different trends between younger and older viewers, and clear evidence in the last two years of a sharp decline in viewing levels to the television set among the under-35s, most pronounced among those aged under 25 (Figure 6). Those aged 16-34 not only watch less television, they also watch less of the five main PSB channels - a daily average of 70 minutes in 2013, compared with 131 minutes in 2003. The study also uncovered marked regional variances in the pace of decline among younger viewers between 2010 and 2013, from as high as -19% in Scotland to -1% in the Midlands, but could only find partial explanations as to the variation. The general findings are fortified by Ofcom research which found that live television

---

79 BARB 2015.
80 Just over a quarter (28%) of 16-34s are in full time education, 49% in full time work. BBC Executive data, 2013.
81 Ethnic minorities account for around 9% of the UK population but 13% of those aged 16-34. BBC Executive data, 2013.
82 Enders Analysis, Where Have all the Young Viewers Gone?, 2014, pp.8.
accounts for only 50% of the viewing time of 16-24 year olds, compared with 61% for those aged 25-34 and 69% for all adults.\textsuperscript{83}

**Figure 6**: total viewing of the television set (source Enders Analysis/BARB/InfoSys+, 2014)

6.3.3. Overall, however, patterns of viewing have changed more gradually and the shift in behaviour has yet to impact older demographics in the same way. To some extent the resilience of television is due to the factors required to affect a more pronounced shift in consumption. Despite growing sales of connected devices, the uptake of video services is likely to be more gradual, requiring as it does a reliable connection, a well-integrated user experience and a shift in behaviour (the latter, in particular, being more difficult to both effect and predict).

6.3.4. Less certain is whether the consumption habits of a younger cohort are durable in character. There are lots of views and no clear consensus. Lifestyle factors may be causally upstream of changes in viewing habits.\textsuperscript{84} It could be that for younger audiences, greater choice reduces television viewing, but the evidence is mixed. Different media are often used concurrently, debunking the substitution hypothesis. The report by Enders Analysis suggests that the trend to watch less television will reverse as younger generations set up home. Enders Analysis ascribes the larger declines among young audiences to life stage phenomena and points to a 2012 study by Thinkbox which supports the view that live television satisfies a broader range of viewer need states than video-on-demand and is better suited to viewers who want to unwind.\textsuperscript{85}

6.3.5. That 88% of overall television viewing is live is testament to this, located in an experience and a mode of viewing that is familiar, effortless and social.\textsuperscript{86} For many young people, television still retains an important place in the media landscape, one whose strength lies in shared moments and live events that rival platforms cannot match. This finds force in research by Ofcom which found that 74% of all adults consider that television has a societal value, realised in the shared viewing of

\textsuperscript{83} Ofcom, Communications Market Report, 2014, pp.64.
\textsuperscript{84} Changes such as setting up home, starting work or having children.
\textsuperscript{85} Thinkbox, Screen Life: TV in Demand study, 2013.
\textsuperscript{86} https://www.audienceportal.co.uk/article_list/vision_articles/the_state_of_tv_right_now.aspx. BBC Executive, What you need to know: The State of TV right now, October 2014.
important events, connecting with a wider world and discovering content that they might not otherwise watch.\textsuperscript{87}

6.3.6. This does not belie the direction of viewing trends or their durability. Some believe that the sharp decline in viewing among a younger cohort is permanent in character. Ofcom also found that younger viewers watch 'increasingly less television [and] may be taking these habits with them as they age.'\textsuperscript{88} Those aged 16-24 and 25-34 are not only less likely to watch television, they are less likely to miss a television set (17% and 20% respectively, compared with 37% of all adults) according to research by Ofcom.\textsuperscript{89}

6.3.7. Certainly, any suggestion that young adults will increase their television viewing over time is not grounded in empirical observation (Figure 7). Instead, figures suggest that linear viewing is on a downward trend and that this is more pronounced in those aged under 24. Looking further ahead, the future is less certain. Oliver & Ohlbaum projects that by 2027, 55% of total television viewing will be linear but that this will vary widely with age, accounting for perhaps 60% of consumption for the over-45s but as little as 25% for those aged under 34.\textsuperscript{90} Even on these projections however it is likely that time-shifted and on-demand viewing will compensate to some degree for the loss in linear.

\textbf{Figure 7: young people's linear television viewing}\textsuperscript{91}

6.4. \textbf{Popular channels}

6.4.1. The viewing of younger audiences is not only less frequent, it is also more varied. Under-34s are more likely to watch a higher proportion of non-PSB channels and to watch content online. Ofcom found that the average number of television channels that account for 75% of viewing increased from 18 in 2007 to 26 in 2013. However, among those aged 16-24, 32 channels account for 75% of their viewing.\textsuperscript{92} This has in turn affected PSB share. In 2003, PSB channels had a 74.3% viewing share among those aged 16-34, by 2013. This had dropped to 64.7%.\textsuperscript{93} This general trend is

\textsuperscript{87} Ofcom, Public Service Content in a Connected Society, 2014, pp.29.
\textsuperscript{88} Ofcom, Public Service Content in a Connected Society, 2014, pp.29.
\textsuperscript{89} Ofcom, Adults’ Media Use and Attitudes, 2015, pp.77.
\textsuperscript{90} Oliver & Ohlbaum, UK Media Market Through to 2027, 2014, pp.21.
\textsuperscript{91} BBC Executive, Audience Trends for the 2020s, 2015, pp.23.
\textsuperscript{92} Ofcom, Communications Market Report, 2014, pp.105.
\textsuperscript{93} Enders Analysis, Where Have all the Young Viewers Gone? 2014, pp.8
reflected in our own research, which found that younger viewers devote significantly less time to BBC television.\textsuperscript{94}

6.4.2. PSB portfolio channels (such as ITV 2) have generally (and gradually) gained share while flagship channels have seen some contraction. But while the main PSB channels have seen a decline in share among younger audiences, the overall PSB portfolios perform well. In aggregate, the major channel groups account for a substantial portion of total viewing. Enders Analysis found that PSB portfolios attracted 76% of the ‘most favourite channel’ votes from 16-24 year olds, and 65% from those aged 25-34.\textsuperscript{95} But the story is nuanced. PSB channels feature in only two of the top six channels when ranked by their proportion of 16-34 viewers (Table 8). Music and entertainment channels account for the remainder.

6.4.3. Interestingly, despite being lighter viewers, young people are more likely to have a favourable view of the programmes they do watch and more likely than older groups to say that the quality of programming had improved.\textsuperscript{96} It could be that as lighter viewers, they are more likely to watch only programmes they enjoy and proportionally more likely therefore to rate them favourably.

Table 8: the top and bottom channels by proportion of 16-34 viewers\textsuperscript{97}

<table>
<thead>
<tr>
<th>Channel</th>
<th>% of audience made up of 16-34s</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTV</td>
<td>57</td>
</tr>
<tr>
<td>COMEDY CENTRAL</td>
<td>52</td>
</tr>
<tr>
<td>E4</td>
<td>50</td>
</tr>
<tr>
<td>VIVA</td>
<td>46</td>
</tr>
<tr>
<td>4MUSIC</td>
<td>43</td>
</tr>
<tr>
<td>BBC 3</td>
<td>42</td>
</tr>
<tr>
<td>ITV3</td>
<td>4</td>
</tr>
<tr>
<td>BBC 4</td>
<td>7</td>
</tr>
<tr>
<td>BBC 2</td>
<td>11</td>
</tr>
<tr>
<td>BBC 1</td>
<td>11</td>
</tr>
<tr>
<td>5 USA</td>
<td>11</td>
</tr>
</tbody>
</table>

6.5. Programme promotion

6.5.1. Programme trailers and word of mouth are reliable ways in which to build a television audience of any age. Guidance, signposts and recommendations are particularly valued by younger viewers and social media plays an important part.\textsuperscript{98} In one sense, it has displaced the television listings guide as a means to direct young viewers to the linear schedule. This can be seen in the way that 40% of UK Twitter traffic at peak times relates to television programmes.\textsuperscript{99} However, promotion pulls in both directions: for online content, linear television drives consumption. The BBC production Sherlock is a

---

\textsuperscript{94} While there have been changes in the age profile of the UK population during this time, its median age has remained static at 40. This suggests that the changes in the viewing profile of BBC television channels are not solely the result of population changes but reflect a change in their relative appeal to different age groups. BBC Trust, Television Service Review - BBC One, BBC Two, BBC Three & BBC Four, 2014, pp.14.

\textsuperscript{95} In a survey by Deloitte/GfK, 2013. Enders Analysis, Where Have all the Young Viewers Gone?, 2013, pp.8.

\textsuperscript{96} Ofcom, Communications Market Report, 2014, pp.205.

\textsuperscript{97} The table is only applicable for channels with an average audience of over 5K viewers. If this was not applied, all of the top 10 channels would be music based. BARB, 2014.


\textsuperscript{99} Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment, 2015, pp.29.
notable example: the opening episode of the third series attracted 9.2m viewers on
the night but an additional 3.5m people viewed it later in the week, making it the most
time-shifted episode of a programme to date.

6.6. Peak viewing times

6.6.1. While there have been significant falls in the number of viewers aged 16-34, their
viewing characteristics are relatively stable - rising gradually throughout the day and
peaking in the evening at around 10pm. Viewing for BBC Three has a later peak,
between 11pm and midnight, followed by a rapid decline in overall audience
thereafter.\(^{100}\)

6.6.2. While young people watch less, and they tend to watch late, they nevertheless still
watch. This may be anchored in the ability of television to satisfy a broad range of
audience needs. It may be that viewers are motivated to search for and select content
to view online earlier in the evening but prefer a ‘lean back’ experience, requiring
minimal effort, later at night. This finds force in a 2012 study by Thinkbox, which
found that television was better suited than video-on-demand to cater to viewers when
they want to unwind.\(^{101}\) Given that viewers are more likely to be in this frame of mind
later at night, the findings have intuitive force and are reflected in the peak hours for
young viewers (and also for BBC Three).

6.7. Other media activity

6.7.1. Younger viewers are typically lighter viewers who spend more of their time on other
activities. Online content plays a central role in their daily lives and many have not
experienced a world without the internet. This group has a higher level of internet
access than any other demographic (94% for those aged 16-24 and 92% for those
aged 25-34\(^{102}\)) and connectivity is a major factor in the sharp decline in their television
viewing. The availability of high-speed broadband and of multiple portable screens, the
expansion of content offers and of social media all compete for a younger cohort. The
growth in choice has been accompanied by a parallel increase in total media activity.
The daily media consumption of those aged 16-24 rose from nine hours 32 minutes in
2010 to over 14 hours in 2014, compressed into a little over nine hours by virtue of
simultaneous activity.\(^{103}\)

Catch-up and on-demand viewing

6.7.2. Live television is predictably a casualty of greater choice. This generation values
individual choice and greater control, reflected in the fact that they are generally more
likely to watch on-demand content. Just over 20% of the viewing time of those aged
16-24 is spent watching online content (6% watching paid-for services such as Netflix
or iTunes, 7% watching free catch-up services such as BBC iPlayer or 4OD and 8%
watching online video clips), a significantly greater proportion than for any other age
group. Those aged 25-34 watch a similar portion of catch-up and paid-for content but

\(^{100}\) BARB, 2014.
\(^{101}\) Thinkbox identified six need states from unwind and comfort to connect, experience, escape and indulge. Unlike
demographic segmentation, which classifies consumers into discrete groups, with need state targeting, a single consumer can
experience different need states over time. Thinkbox, Screen Life: TV in demand, 2013.
a much smaller amount of short online video clips at only 2%. Furthermore, those aged 16-34 are far more likely to stream or download programmes or films on a regular weekly basis, at 39% and 33% respectively, compared with 27% for all adults.

6.7.3. We found no observable pattern however in the way in which on-demand services are used by a younger cohort. While those aged 16-24 are somewhat more likely to browse without a title in mind or to watch something they have not seen on television, the majority (62%) uses BBC iPlayer for a particular programme, a similar proportion to all adults. This finds force in research by Ofcom which found that the most common reason (among all adults) for watching television and online VOD services was to catch up on a missed programme or film. But while catch-up is the primary motivation, room exists for exploration. This traces to BBC research which found that younger adults are somewhat more likely to browse BBC iPlayer without a particular title in mind (Table 9).

Table 9: % of adults who come to BBC iPlayer to browse for something to watch without a specific title in mind (source: BBC Pulse Panel)

<table>
<thead>
<tr>
<th></th>
<th>Often</th>
<th>Occasionally</th>
<th>Once or Twice</th>
<th>Never</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>11</td>
<td>28</td>
<td>21</td>
<td>37</td>
<td>4</td>
</tr>
<tr>
<td>16-24</td>
<td>13</td>
<td>29</td>
<td>33</td>
<td>20</td>
<td>5</td>
</tr>
</tbody>
</table>

6.7.4. The usage of free catch-up services as opposed to paid-for services does however differ more markedly by age. Among those aged 16-24, 54% of the long-form online content they watch is free; this compares with 50% for those aged 25-34. Those aged over 35, however, are overwhelmingly more likely to use free services, ranging from 74% for those aged 35-44 to 77% for those aged over 65. Perhaps because of this, young people place less importance on live television viewing. The same report found that only 3% of 16-24 year olds would miss it most if it was not there, compared with 31% of those aged 65+. But perhaps this is less startling than it appears. Younger viewers inarguably watch less live television, and they watch it in different ways and on different devices, but what they are (mostly) watching are programmes and films.

6.7.5. This points to the enduring appeal of high-quality long-form video content but it also suggests that the distinction between the different modes of viewing is both less important and less apparent. This is fortified by Ofcom research which found that the boundary between offline and online has become less evident. For younger participants television viewing forms part of their overall consumption of media rather than online or on-demand content forming part of their television consumption. When they do watch television, younger viewers are also more likely to combine it with other activities. Those aged 16-24 spend 35% of their television viewing time on simultaneous activities, such as social media or email, compared with 21% for all adults. This finds force in BBC research which found that 78% of this age group

---

105 Ofcom, Adults’ Media Use and Attitudes, 2015, pp.83.
108 BBC Executive, 2015.
often used the internet while watching television and that their activity was often related to the programme they were watching.\textsuperscript{112}

\section*{Media time by platform and activity}

\subsection*{6.7.6. The role of linear television, while still influential, is much reduced. Young adults consume media on a greater range of devices and from a greater range of sources than ever before. Online activity accounts for 39\% of their media time by platform compared with 23\% for all adults and it is growing (Figure 8). Between 2013 and 2014, total online minutes for those aged 16-34 increased by 27\%, more than double the growth for all adults. Young adults devote only 36\% of their media time to television, compared with 52\% for all adults. The compensating effect of online video meanwhile (which includes a catch-up element) is at 7\%, still relatively small.}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure8.png}
\caption{people are spending more time online\textsuperscript{113}}
\end{figure}

\subsection*{6.7.7. Patterns of media usage vary. Television viewing peaks in the evening possibly reflecting a particular need state and the desire for a lean back experience that requires minimal effort later at night. By contrast, text communications (messaging, communicating via social networks and instant messaging) take up a much greater proportion of media activity throughout the day.\textsuperscript{114}}

Social media is also important but preferences vary: 75\% of 16-24 year olds and 67\% of 25-34 year olds use these sites, significantly higher than the UK average of 47\%. There are differences by demographic: social media is more popular among women (50\%) than men (40\%) and among AB and C1s (55\% and 53\%) than C2 and DEs (43\% and 36\%).\textsuperscript{115}

\begin{table}
\centering
\begin{tabular}{|c|c|c|}
\hline
Platform & Activity & Percentage \\
\hline
Television & TV & 52\% \\
Radio & Radio & 25\% \\
Online video/audio & Online video/audio & 19\% \\
Online video & Online video & 3\% \\
Online audio & Online audio & 1\% \\
\hline
\end{tabular}
\caption{Percentage of media time spent by platform.}
\end{table}

\begin{table}
\centering
\begin{tabular}{|c|c|c|}
\hline
Age Group & Total Online minutes & Percentage \\
\hline
All adults & Jan 14 vs. Jan 13 & +23\% \\
16-34 & Jan 14 vs. Jan 13 & +27\% \\
\hline
\end{tabular}
\caption{Total online minutes.}
\end{table}

\textsuperscript{112} BBC Executive, Digital Youth, 2014, pp.13.
\textsuperscript{113} Results are on the basis of a month’s worth of data. BBC Executive, Audience Trends for the 2020s, 2014, pp.24.
\textsuperscript{115} Ofcom, Communications Market Report, 2014, pp.286-287.
6.8. **Device uptake and usage**

6.8.1. Those aged 16-34 not only spend more of their *time* online, they are more likely to get there on a portable device. Mobile is well on its way to becoming the predominant access platform in the UK, according to a study by Enders Analysis and young adults are leading the way with high uptake of smartphones.\(^{117}\) Young adults are also more likely to use different devices *concurrently*. A 2014 study by Ofcom found that those aged 16-24 spend 35% of their total media time on two or more media activities simultaneously.\(^{118}\)

6.8.2. Ofcom also found that different devices serve different functions. Live television is overwhelmingly watched on a television set. Tablets are more likely to be used for catch-up content while smartphones lend themselves to online video clips. Due to their size and weight, tablets tend to be used within the home while smartphones accompany their owners everywhere. As they reach mass adoption the role they play becomes more central. Just under 90% of those aged 16-24 owns a smartphone\(^{119}\) and it accounts for 25% of their communication and media time.\(^{120}\) Furthermore, those aged 16-24 and 25-34 are more likely than all mobile users to use their phone to watch online video (70% and 64% respectively, compared with 41% of all mobile users).\(^{121}\)

6.8.3. Location also matters: 68% of all media and communication activities undertaken by 16-24 year olds happen at home, compared with 75% for all adults. Platforms and devices peak at different times of day and perform particularly well with different types of content. Both mobiles and tablets tend to peak at 10pm with a boost in the morning. Although the top programmes across devices are broadly similar, there are certain skews, with BBC Three content particularly popular on mobile and games.

---


\(^{117}\) Enders Analysis, UK Internet Device and Consumption Forecasts to 2020, 2014.

\(^{118}\) This compares with 21% for all adults and falls to 11% among those aged 65+. Ofcom, Digital Day, 2014, pp.45.


\(^{120}\) Ofcom, Digital Day, 2014, pp.4.

\(^{121}\) Ofcom, Adults’ Media Use and Attitudes, 2015, pp.70.
While take-up of internet-enabled devices has grown year on year, and (generally) across all age and socioeconomic groups, there are still variances by demographic. Roughly 50% of those aged 16-34 live in a household with a tablet computer. This translates to 51% of ABC1 households but only 35% of C2DEs. A similar pattern can be found in laptop ownership. Around 70% of those aged 16-34 live in a household with a laptop computer and the proportion of ABC1 households is slightly higher at 74% but drops to 50% for C2DEs.

6.9. Concluding remarks

6.9.1. In trying to understand the viewing patterns of young adults and make sense of recent trends, it is tempting to view those aged 16-34 as a single homogenous group. But this is a diverse group of around 15 million people covering different life stages from different backgrounds and with different interests. We can tease out some commonalities to better understand viewing patterns but it would be premature to assume that they hold under every condition and for every individual. The observable pattern among those aged 16-34 is one of reduced linear viewing and the direction of travel is online. But not everyone has access to a reliable connection while others have usage caps or lack the inclination to watch content online.

6.9.2. Having examined the viewing habits of young adults, in the section that follows we assess the core proposal, the closure of BBC Three as a linear channel and the launch in its place of an online offer.

---

122 BBC Executive, Audience research, June – September 2014.
7. Assessment of core proposal

7.1. Introduction

7.1.1. Having considered the shift in consumption patterns, the audience that BBC Three aims to serve and the extent to which their viewing patterns are durable, we now move to the assessment of the core proposal – the closure of BBC Three as a broadcast channel in early 2016 and the launch in its place of an online offer.\textsuperscript{124}

7.1.2. We consider the proposal with reference to the four drivers of public value: quality, reach, impact and value for money. The relative importance of each driver of public value varies across different proposals. Our overall assessment in each case is weighted by the significance we ascribe to each driver for the proposal under assessment (Table 10). We also assess the extent to which the proposal contributes to the delivery of the BBC’s public purposes.

Table 10: weighting the drivers of public value

<table>
<thead>
<tr>
<th>Driver of public value</th>
<th>Relevant consideration for BBC Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality and distinctiveness</td>
<td>Important: the offer must reflect high quality production values, provide a fresh and distinctive approach, enable access services and ensure clear attribution to the BBC when using third-party sites</td>
</tr>
<tr>
<td>Reach</td>
<td>Very important: ability to build reach among a young audience over time (and in particular among underserved groups) is a key driver</td>
</tr>
<tr>
<td>Impact</td>
<td>Very important: impact on younger audiences is key</td>
</tr>
<tr>
<td>Value for money</td>
<td>Very important: highly relevant driver in the context of financial constraints and a need for increased efficiency</td>
</tr>
</tbody>
</table>

7.2. Contribution to the public purposes

7.2.1. There are six public purposes and every BBC service should further them in some way (Figure 10).

Figure 10: BBC public purposes

\textsuperscript{124} The Executive now intends to implement the proposals in January 2016 rather than autumn of 2015. This was confirmed on 18 May 2015 and therefore this PVA has been drafted on the basis of the original proposals as submitted to the Trust (i.e. on the basis of an implementation date in autumn 2015) but also addresses any impact on public value of a delay to implementation until January 2016.
7.2.2. The proposal for BBC Three is part of a broader strategy to reconnect with a younger audience both using targeted content (such as Radio 1 branded space in BBC iPlayer) and programmes with a broader appeal (such as drama on BBC One and Two). The Executive believes that an online offer will contribute to the delivery of the purposes in a number of ways. News and factual output will advance the first purpose. Daily news coverage will support the fifth while the overall content offer will reflect and reinforce the diversity of the UK. As an online offer, BBC Three will generate both demand for new types of content and capacity in the online supply sector, thereby advancing the sixth digital purpose.

7.2.3. We think this is a reasonable assessment. The proposal may help to remedy the twin challenge of reach and relevance. We note however that this rests on the ability of the online offer to reach a younger audience and that in practice this presents a hurdle.

7.2.4. We consider that the nations, regions and communities purpose is particularly relevant to our assessment, given the remit of BBC Three to attract a young audience, many of whom are from black, Asian and minority ethnic groups. Audiences attach a high value to portrayal and see it as an important part of the BBC's remit. But the effective fulfilment of this purpose is under strain: it is the worst performing purpose with an average performance score of 52% and an average performance gap of -12.

7.2.5. We also recognise the importance of the digital purpose, which has the second poorest average performance score at 55%. While younger audiences are more likely to attach higher importance to this purpose and to award higher scores in certain areas, such as quality content on the internet, the scores have increased fairly little in recent years. The emphasis on future improvements will therefore need to be on quality and BBC Three online could help.

7.2.6. We also believe that the proposal will contribute to the third purpose, stimulating creativity, and may help to support the digital economy. Audiences attach a high value to this purpose and see it as an important part of the BBC's remit. The creativity purpose is the most varied in its performance, however, and gaps exist. While 60% of people attach importance to the provision of programmes and online content that no other broadcaster would make, 49% believes the BBC provides this, creating a performance gap of -11. By increasing the range of content that is available online, the proposals for BBC Three may help to narrow the performance gap in an important area. Further, the perception that the BBC has a lot of fresh and new ideas attracts one of the largest performance gaps at -16. Those aged 16-34 attach relatively less importance to this area and are relatively more likely to award a higher score. Nevertheless, the performance gap for this age group, while smaller, still stands at -9. Perceptions in this area are partly driven by technology, so again BBC Three Online may help.

125 Information provided by the BBC Executive, 2015.
128 Ibid, pp.36.
129 The Purpose Remit Survey also looked at the ranking of the purposes including digital.
130 Performance gaps show the difference between a statement's performance score and importance score. For example, if statement received a performance score of 57% and an importance score of 65%, it would have a performance gap of -8.
7.3. Quality and distinctiveness

7.3.1. An important part of our assessment was whether the proposed offer was of high quality and distinctive. For several years, the BBC has had a corporate objective to focus on quality and distinctiveness. As part of this, the BBC is required to offer fresh and new approaches, set trends and take creative risks. As a publicly funded broadcaster, it carries a special responsibility to be distinctive and different from commercial broadcasters. We therefore had regard to the following criteria (Table 11).

Table 11: quality and distinctiveness criteria

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Requirement</th>
<th>BBC Three Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Editorial values</td>
<td>Reflects BBC values</td>
<td>✓</td>
</tr>
<tr>
<td>2. Originality</td>
<td>Fresh approach, breaks new ground, sets trends</td>
<td>✓</td>
</tr>
<tr>
<td>3. Creative ambition</td>
<td>Takes creative risks</td>
<td>✓</td>
</tr>
<tr>
<td>4. Attribution</td>
<td>Clear link to BBC brand</td>
<td>-</td>
</tr>
</tbody>
</table>

7.3.2. The historical success of BBC Three rests on its ability to innovate and develop new talent, particularly in comedy. There is a perception, however, that the channel has become less varied and more repetitive with too many entertainment programmes of limited educational or factual value and too many repeats. It may account, at least in part, for some of the decline in channel share among young adults (although as we have already noted, the observable pattern of linear viewing for this group is one of decline). In response to general concerns about quality, the Executive wants to refocus the budget for the new service on a smaller number of high-quality programmes. It plans to build on areas where performance is strong (particularly within comedy and factual) and discontinue lighter features and formats (Table 12). It will do this with a much smaller content budget of £30m in 2017/18.132

Table 12: proposed indicative levels of investment in different genres

<table>
<thead>
<tr>
<th>Genre</th>
<th>Example of programme</th>
<th>Proposed approximate budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drama</td>
<td>Being Human</td>
<td>Broadly maintained at current level</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Sweat the Small Stuff</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Personality-led entertainment</td>
<td>Jack Whitehall and his Dad</td>
<td>Half the current level</td>
</tr>
<tr>
<td>Features and formats</td>
<td>Reality television shows</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Scripted comedy</td>
<td>Cuckoo</td>
<td>One quarter less than current level</td>
</tr>
<tr>
<td>Serious factual</td>
<td>Our War, Murdered by my Boyfriend</td>
<td>Double the current level</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>Significantly reduced</td>
</tr>
</tbody>
</table>

7.3.3. The level of creative ambition also extends to the proposed use of social media and video-sharing platforms such as YouTube and Twitter to promote episodes, share plotlines and involve the audience. A small number of stakeholders recognised that this was an area where the BBC can excel. The Audience Council for Scotland noted that an online offer would provide greater scope for innovation and creativity and allow the BBC:

---

132 Excluding news and sport and other content-related costs. BBC Executive, 2015.
to experiment with a new kind of content and to engage a greater number of younger people with a more innovative, contemporary offer; one which has the potential to grow further as technological developments continue to unfold.

7.3.4. We can see further potential value for BBC Three Online to act as a gateway to the full range of BBC content and improve its connection with a younger audience whose consumption patterns are rapidly changing. The proposals will allow the BBC to build a direct relationship with audiences to ward against the effects of disintermediation.\(^{133}\)

We note in this respect that the service licence for BBC Three already gives particular encouragement to innovation and experimentation with new digital technologies:

* A significant proportion of the channel’s output should have interactive support. It should exploit digital platforms such as the internet, mobile devices and interactive television, making a significant investment in exploring new forms of content and in giving its audiences more control over how, when and where they access and interact with the content.

7.3.5. The proposed content mix also lends itself to on-demand viewing. Drama, comedy and documentaries are among the most popular genres for television and online VOD, according to research by Ofcom.\(^{134}\) This is reinforced by our research, which found that drama, factual and comedy are by far the genres that people like to watch most on BBC iPlayer.\(^{135}\)

7.3.6. We also agree that a focus on fewer (but more distinctive) titles with high-quality production values will benefit the overall quality and distinctiveness of the offer and better align BBC Three with its public service remit. It responds to research conducted by Ofcom as part of its 2014 PSB review, which found that demand for original and innovative content had risen sharply in recent years:

* There appears to be an emerging concern among audiences about the levels of original and innovative content being produced relative to more tried and tested programmes and formats. This suggests that people feel that the PSBs are duplicating successful programme ideas and formats, potentially at the expense of more original, innovative and challenging programming.

7.3.7. We recognise however that the level of creative ambition may be limited to some extent by the content budget, which is considerably smaller than that of the linear channel. In addition to discontinuing lighter features and formats, the budget for comedy will also be reduced by around 25% (Table 13 above). Many stakeholders were critical of any reduced investment in young audiences while others viewed comedy as a core component of the BBC Three brand. For a large number of stakeholders and viewers, what sets BBC Three apart is its dedicated investment in programmes specifically for young adults, something not matched by any other BBC television channel. The channel is valued not only for comedy but also for its coverage of important social issues, in particular those with relevance for a younger audience, which other BBC channels do not routinely provide.\(^{136}\) One respondent noted that:

---

\(^{133}\) We note however that this will depend upon the ability of the new offer to achieve sufficient reach, something we consider further in our assessment of reach.

\(^{134}\) Ofcom, Communications Market Report, 2014, pp.149.

\(^{135}\) ICM, BBC Trust PVT Quantitative Research Findings, 2015, pp.43.

\(^{136}\) Content covering mental health issues, disabilities and subjects affecting the LGBT community were specifically mentioned in a number of responses.
Issues like LGBT, greater representation of women, disability (both visible and invisible), ethnic diversity and the unique outlook of youth culture are important to me and these issues are not being addressed by the other BBC channels, not with the same sincerity that they are on BBC Three.

(16-24, female)

**Development of new talent and fresh ideas**

7.3.8. A number of stakeholders raised concerns that as an online-only offer, it may have less appeal to producers, writers and actors which may in turn impact the shows that are commissioned and put at risk the quality and breadth of output. Stakeholders from the creative industry were strongly opposed to the closure of the linear channel and critical of the idea that young people preferred to watch content online. Avalon was among those who argued that television is the most economical way to launch new shows and reach the widest possible audience and that the proposals for BBC Three pulled in the opposite direction:

* BBC Three is unique and highly successful in offering new and innovative programming for an underserved young audience. This is significant not only in promoting inclusiveness as a social good but it also builds loyalty and an audience for the future.

7.3.9. Avalon was highly critical of any reduction in programme investment in a younger audience and drew attention to the potential effect on competition of withdrawing from this market. It argued that the BBC alone had an incentive to fund content for young people aimed at a British audience. These general concerns were shared by talent agents and reflected in our public consultation. Many respondents valued BBC Three as a launch pad for new programmes and were concerned that an online offer would result in less exposure to new talent. For some, diverse and fresh comedy is a core component of the BBC Three brand. Reflecting a widely held view, one consultation respondent noted:

* BBC Three is the only BBC channel that caters for young people with their award-winning diverse programmes. There is a real mix of programmes from documentaries to drama to comedy. There is no other channel that targets its audience as well as BBC Three does.

(16-24, male)

7.3.10. In particular, production companies and talent agents were deeply concerned that the loss of the linear channel would have a deleterious effect on the ability of the BBC to nurture new talent and on the UK creative industry more broadly. They argued that BBC Three had a proven track record of developing talent and taking creative risks that was unmatched elsewhere within the BBC portfolio and doubted that the proposed use of linear slots on BBC One and BBC Two would remedy the problem.

7.3.11. The ability and readiness of BBC Three to take creative risks was also highly valued by audiences. One participant, in a session organised by Audience Council Northern Ireland, noted that ‘some programmes flop and some are great, but you always know you’ll get some new programmes.’ There was a related concern among some respondents and stakeholders that the move online would result in fewer original

---

137 We met with production companies and talent agents as part of our assessment who raised these issues.
138 In discussions with the Trust Unit as part of our assessment.
139 With whom we met as part of our consultation.
140 The Executive proposed the use of slots as an interim measure in the early years of the service.
commissions for a less popular BBC Three Online and this was particularly so for regular viewers. The perception was anchored in a more general concern that the online offer would be less visible than a linear channel and therefore less popular, as noted by one consultation respondent:

*I really believe that the BBC will lose audience numbers by putting the channel solely online and fantastic unique programmes and artists will miss out on being exposed to a wide audience, which in turn will mean they won’t get funding to make future programmes.*

(demographic information not supplied)

7.3.12. But views on the creative opportunity pulled in the other direction too. The Audience Council for Scotland suggested that the new channel would allow for ‘the creation of new material, and the opportunity for young talent in the creative industries to get involved.’

7.3.13. Pact raised an ancillary but important point about the use of PSB quotas to safeguard the diversity of supply and ensure a greater representation of British audiences on screen. Pact was also concerned about the impact of the proposals on the terms of trade. It considered that if the BBC wanted to transmit BBC Three programmes on BBC One or BBC Two then it must negotiate additional rights packages with producers.

**Commitment to factual programming**

7.3.14. Stakeholders also raised concerns about the commitment of the BBC to factual programming for young audiences. There was a sense among stakeholders that BBC Three has refined current affairs programming, allowing for a wider range of programmes than traditional current affairs, often with a more accessible approach, which attracts new audiences and younger viewers. The International Broadcasting Trust (IBT) noted that many viewers who do not watch news and current affairs output are nevertheless interested in international stories in other genres. The Voice of the Listener and Viewer (VLV) was principally concerned that the ‘innovative factual and current affairs programming’ on BBC Three would be substantially reduced if the proposal was approved, with no guarantee of how much content would air on other channels. IBT meanwhile cautioned that the proposal would lead to a significant reduction in ‘innovative current affairs content’ which was one of the channel’s great successes.

7.3.15. While we recognise stakeholder concerns, we note that the Executive wants to refocus the budget on a smaller number of high-quality programmes, particularly within serious factual and plans to double the budget for this genre (Table 12, above).

**Loss of US titles**

7.3.16. A number of respondents were also concerned that popular acquisitions such as *Family Guy* and *American Dad* would not be available, thereby lessening the appeal of the online offer. On the one hand, these titles attract a large audience to the linear channel, much of it young and generally hard to reach. On the other, as US acquisitions, they are out of step with a focus on UK originated content and a more general requirement to ensure that BBC programmes are distinctive from those offered by commercial broadcasters. We support the focus on UK originated content but
accept that it is a difficult balancing act given the popularity of these programmes among younger viewers.\footnote{Further, we note that in any event, the BBC will no longer have the rights to new season of Family Guy and American Dad going forward.}

7.3.17. We agree with stakeholders that the online offer should maintain a focus on important social issues and build upon the reputation of the linear channel in the areas of drama, scripted comedy and serious factual. The Executive has made clear that it wants to focus the budget on high-quality programmes but we nevertheless accept the concern that there will be fewer programmes and (in an online-only environment) they may not be so easy to find. This last point was underlined by a number of stakeholders, including the Children’s Media Foundation, which expressed concern about the loss of ‘discoverability’ of content online.

**Watershed protections**

7.3.18. Stakeholders raised a number of supplementary (but important) concerns that related to quality. Mediawatch while ‘broadly supportive’ of the move online nevertheless expressed concern over the loss of ‘watershed’ protection and the risk that younger viewers may have access to unsuitable content. It urged the Trust to ensure that ‘the protections offered by the television watershed are replicated online prior to the online launch.’ We agree on the importance of safeguards and the risk from exposure to unsuitable material. BBC iPlayer features a parental guidance lock which allows parents to control access to BBC audio and video content.\footnote{When using the BBC iPlayer, parents can also set up a ‘parental guidance lock’ which means a password has to be entered before the television programme will play.} We accept however that not all parents will be aware of the feature or make use of it. We therefore consider that the Executive should explore how to raise awareness and promote usage of the parental guidance lock to reduce the risk that younger viewers are exposed to unsuitable content.

**Access services**

7.3.19. As part of our assessment of quality, we had particular regard to the level of access services (such as subtitling, signing and audio-description) for those with auditory and sensory impairments. Access and usability are important considerations and a poorly designed site is a barrier to use. Those with a disability tend to be more economically and socially disadvantaged than the population overall, are more likely to be without a job and less likely to have an internet connection. This is reinforced by 2013 research by Ofcom, which found that ownership of communications services was generally lower among people with a disability.\footnote{Ofcom, Disabled Consumers’ Ownership of Communications Services, 2013, pp.20.} In simple terms, disability limits access to communications services and technological change can make matters worse. This is reflected in the findings from our quantitative study - 57% of those with a disability stated that they would be unlikely to use BBC Three Online.\footnote{ICM, BBC Trust Public Value Test Quantitative Research Report, 2015, pp. 26.}

7.3.20. RNIB was concerned that AD users would lose access to programmes if BBC Three moves to an online environment, which is currently inadequate to the task of providing AD. It called for the BBC to ensure that current levels of AD on BBC Three are met by the online offer, that minimum accessibility criteria are set for platforms hosting BBC Three online, that the BBC makes clear the level of AD on online-first content (and
RNIB 'see no reason for this level to be less than the BBC currently offers') and that the BBC commits to a firm deadline for the provision of AD on the majority of platforms (with priority being placed on those used by blind and partially sighted people). Further the Trust would need 'to make clear what contingency planning is in place in the event that those deadlines are not met.'

7.3.21. Similar concerns were raised by Action on Hearing Loss, which sought assurances that access services (subtitling and signing) would continue with the move online.\(^{145}\) It suggested that the BBC should maintain current levels of access services for online-first and online-only content, and that any third-party content carried on BBC iPlayer should meet the same standards. The Executive has confirmed that all audio-visual content would be subject to usual accessibility requirements for iPlayer.\(^{146}\) In the event of an approval, the Executive should set out its plans for ensuring that the needs of those sensory and auditory impairments are properly addressed.

**Universality**

7.3.22. Our assessment uncovered a number of issues related to the principle of universality. IBT argued that an online offer was counter to the fundamental principle of universal availability and that this was one of the pillars of public service broadcasting in the UK:

> The proposal to move content from a platform which is free at the point of use to one where the user has to pay for a broadband service to view content they have already paid for with the licence fee undermines the fundamental principle of BBC broadcast services which are provided free at the point of access, universally across the UK via DTT and radio.

7.3.23. In a bid to mitigate against the loss of universality, IBT wanted all BBC Three long-form programmes transmitted on BBC One and BBC Two. A general concern about access was often allied with a belief that savings could be made elsewhere\(^{147}\) and some consultation respondents felt that the proposal would undermine the value of the licence fee. Other stakeholders, among them Avalon, Pact and Equity, were concerned that the BBC had not exhausted all alternatives to closure.

**Attribution**

7.3.24. We have a supplementary concern regarding weak attribution to BBC content on third-party platforms such as YouTube, which may over time diminish the perceived value of the BBC. Young people often watch or listen to BBC programmes on third-party sites without being aware of their origination and often find it hard to make the connection between (say) the Radio 1 brand on YouTube and the BBC.

**Conclusions on quality**

7.3.25. Our overall conclusion is that the quality and distinctiveness of the online offer will be medium to high. We consider that a focus on factual and comedy output with fewer but more innovative will benefit the public. The scale of the proposed investment meanwhile is likely to mean that the BBC will bring high-quality production values to an online environment and draw upon a proven track record in developing high-quality

---

\(^{145}\) At present, BBC Three offers 100% subtitling and 5% signing. Action on Hearing Loss Consultation Response, 2015, pp.1.

\(^{146}\) Email from the BBC Executive, 21 May 2015.

\(^{147}\) BBC Four was most commonly mentioned in this context. BBC Parliament was also raised.
digital offers, most notably, BBC iPlayer. Nevertheless, we have some concerns about access for those without a reliable broadband connection (which will inevitably affect perceptions of quality), the level of attribution for BBC content on third-party sites such as YouTube, and the provision of access services for those with auditory and sensory impairments. We are also concerned about the loss of the linear channel as a launch pad for new talent and how this will affect the quality and breadth of output and the ability of the BBC to support the creative industries more generally.

### 7.4. Reach among younger audience groups

#### 7.4.1. As part of our assessment, we undertook a detailed analysis of reach. Reach measures the number of people who access BBC content. It is a key driver of public value. Clause 12 of the Framework Agreement requires the BBC to do all that is reasonably practicable to ensure that audience groups can access its services in a range of ways. We therefore wanted to establish whether an online only offer was an effective way for the BBC to fulfil its remit. Put another way, would younger audiences use the service in sufficient numbers to justify the investment and would it extend (or at the very least help to maintain) reach among underserved groups identified by both the Executive and the Trust as being more generally the under-34s? A key aspect of our assessment was the impact on reach among those aged 16-24, young C2DE adults and those from black, Asian and ethnic minority groups. Before setting out our conclusions, we deal with a specific, but related, aspect of reach: broadband availability and performance.

### Broadband availability and performance

#### 7.4.2. Seventy-seven per cent of UK households has broadband and over 25% of these connections are superfast. Broadband has extended further into rural areas and faster connection speeds are more widely available, but variations in uptake persist. The reasons for the disparity relate in the main to socioeconomic and geographic factors. The combined cost of broadband (or mobile) connection and PC or tablet may put the service beyond the means of low-income households and provide a barrier to participation. Just under a fifth of UK adults (19%) does not have household access to the internet and many are among the most socially and economically disadvantaged in the country. While the number of internet connections has risen across all income groups, the differentials between them remain fairly constant (Figure 11).

---

148 In particular, see the equality impact assessment published alongside this document.
149 This includes households with fixed and/or mobile broadband connections, but excludes access via a mobile handset. Ofcom, Communications Market Report, 2014, pp.4.
150 As of Q1 2014, according to Ofcom research.
Figure 11: household internet access by age, socioeconomic group and gender (source: Ofcom[151])

7.4.3. Ofcom research found that the majority of respondents without internet access do not intend to get it (14% of all adults). This could be for a variety of reasons. While some may lack the means others may have no interest in an internet connection or be unaware of the benefits.[152] For those on lower incomes who do have access (or who plan to get it), performance may be an issue according to the same study.[153]

7.4.4. Ofcom wanted to establish the drivers of broadband availability in cities across the UK and to test a hypothesis that a relationship might exist between socioeconomic deprivation and both the proportion of broadband connections with a speed of less than 2Mbit/s and the availability of next-generation access services. It found that while the availability of NGA services had improved, the most income-deprived quartile of each city had lower availability and a higher number of slow lines. Ofcom also found that while cities had greater availability of NGA services than the UK as a whole, it was not evenly distributed. Further, while it identified a relationship in some cities between income deprivation and NGA availability, in others geographical features played a part.

7.4.5. Geographical factors then also determine availability and rural communities in particular have more limited access to broadband (or to broadband with a reliable performance). In its 2014 PSB review, Ofcom found that one of the main variables in people’s experience of technology and communications services is location. Generally, urban areas are better connected than rural ones and offer a greater range of services. There are differences too in Northern Ireland, Scotland and Wales. These concerns were also reflected in a 2015 report by the Environment, Food and Rural Affairs Committee,[154] which noted that:

Poor broadband can lead to a range of problems: from reduced access to online learning resources for students, to families being unable to use every day online services such as BBC iPlayer and rural businesses being powerless to function in an increasingly online marketplace. Overall, [it] can produce a feeling of a two-tier society with the ‘have and have nots’. This feeling is most apparent in rural communities which by their geographical nature are often the hardest for the infrastructure to reach.

---

152 Ofcom found that the proportion of adults who do not intend to get household access has not changed since 2013 and appears to have reached a plateau. Ofcom, Communications Market Report, 2014, pp.276.
7.4.6. But how do these findings relate to our target audience, whose access to the internet is higher than for any other age group? While the great majority of those aged 16-34 has a household internet connection, a small minority does not and may not for the foreseeable future. Further, a portion of those who do have access may not have a reliable connection while others may have usage caps. This general concern was reflected in responses to our public consultation and in our quantitative study.

7.4.7. Those living in rural areas were significantly more likely to state that they would be unlikely to use the service (68%) compared with those in urban areas (50%). This may well relate to the fact that urban areas have better internet access and more reliable connections. It is borne out by our research which found that 22% of adults believe that their internet speed is not fast enough, including 25% of 16-44 and 32% of those in rural areas.\(^{155}\) Respondents to our public consultation also believed that broadband speeds in some rural areas were too slow to allow people to watch television online. Broadband speeds and caps on data usage were a particular concern, as one consultation respondent noted:

*Not everyone has the ability to watch television online yet, especially as broadband can be unreliable and slow for streaming videos and a lot of broadband providers are not truthful about the Internet speeds.*

(demographic information not supplied)

7.4.8. Similar issues were raised by stakeholders: The Children’s Media Foundation had a general concern about universality, while Equity pointed to problems for those without access to superfast broadband. Proposals, argued Virgin Media, would:

*Exclude many from access to BBC services; restrict their choice as to methods of access; and lead to variations in quality of service according to the quality of the broadband connection used by each consumer.*

7.4.9. We share concerns raised by stakeholders and the general public about universality, without adequate broadband coverage (a particular problem in many rural areas), an online-only service will preclude access to certain groups. While broadband uptake has increased and faster speeds are more widely available, variations in speed and performance persist. Admittedly some of these may be short-term constraints but they nevertheless limit uptake, which in turn affects reach.

**Projections on reach**

7.4.10. Access to a reliable internet connection is a key factor in determining usage but reach is not just about the total number of people using BBC services, it has a qualitative element. The BBC has a role in serving minority and underserved audiences. A further useful measure of reach, tied to achievement of the public purposes, is the extent to which BBC content reaches particular segments of the audience - we had particular regard to those aged 16-24, young C2DE adults and those from black, Asian and ethnic minority groups.

7.4.11. Estimating reach is somewhat speculative, however, with a wide range of social and market factors at work. While some can be predicted with a degree of accuracy, others are harder to gauge. This is especially true where the service is new, thereby ensuring

that projections are inherently uncertain. Nevertheless, our analysis suggests that the closure of BBC Three as a linear channel could in the near-term disadvantage a younger audience who would not find a ready substitute elsewhere in the BBC offer. Moreover, there is a risk that unique viewers, those who do not watch any other BBC television service, would be lost to the BBC.

7.4.12. To calculate reach, we looked first at the impact of the closure of the linear channel and then at the recovery through the online service. Our findings are summarised below (our full assessment of reach can be found at annex II).

**Closure of the linear channel**

7.4.13. In 2014 BBC Three reach was 19.1% of which 1.6% was unique reach.\(^{156}\) The Executive estimates that the closure of BBC Three as a linear channel will reduce overall reach by 1.3% in 2017, with 80% of the unique reach being lost. Given possible changes in the variables that affect it, not least of which are schedules, tastes and competitor offers, constant reach over time is a fair assumption. However, BBC Three unique reach has grown at a constant annual rate of roughly 0.1% over the last five years.

7.4.14. Assuming that everything stays constant, we could likewise plausibly assume that unique reach will continue to grow at the same rate, with the result that by 2017 it is equal to 1.9%. Assuming a loss of 80% of those uniquely reached, the overall loss of television reach is likely to be between 1.3% (as predicted by the Executive) and 1.5% (under the scenario where unique reach continues to grow). In terms of absolute numbers, this is between 800,000 and 900,000 individuals.

**Unique reach**

7.4.15. Unique reach for BBC Three is proportionately higher among younger viewers, C2DE adults and BAME communities and it is important given a more general challenge for the BBC to reach these groups. BBC Three is viewed positively for its relevance for different ethnic groups.\(^{157}\) Among consultation respondents there was a perception that the linear channel more widely represents BAME viewers than other television channels. But this was accompanied by an underlying concern that its closure would signal a reduction in the level of content relevant to ethnic groups.

7.4.16. Ethnic minorities were twice as likely as the majority white population to say that they would use the proposed service.\(^{158}\) However statistically, particular ethnic minority groups are also more likely to have slower broadband than the rest of the population. The C2DE audience also has lower levels of broadband access.\(^{159}\) An online-only offer is therefore likely to have a disproportionate negative impact on these groups. Our projections for the unique reach of BBC Three to different (but key) demographic groups in 2014 as set out at Table 13. It also compares the forecast growth in unique reach for 2017 with the forecast loss in BBC television reach resulting from the closure of BBC Three as a linear channel.\(^{160}\)

---

156 Unique reach is for BBC television only, i.e. people may well listen to BBC radio or use BBC online services. BARB, 2014.
159 Refer to our equality impact assessment published alongside this document.
160 Assuming unique reach was to grow at the rate it grew between 2010-2014, in 2017.
Table 13: actual and forecast unique reach

<table>
<thead>
<tr>
<th>Demographic group</th>
<th>Actual BBC Three unique reach 2014</th>
<th>Forecast BBC Three unique reach 2017</th>
<th>Forecast loss in overall BBC reach in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 16-34</td>
<td>3.6%</td>
<td>4.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2. 12-15</td>
<td>4.1%</td>
<td>4.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>3. 16-24</td>
<td>4.9%</td>
<td>5.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>4. Black audiences</td>
<td>2.9%</td>
<td>3.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>5. Men C2DE 16-24</td>
<td>6.7%</td>
<td>8.2%</td>
<td>6.6%</td>
</tr>
<tr>
<td>6. Women C2DE 16-24</td>
<td>4.7%</td>
<td>6.1%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: BARB Data, BBC Trust analysis

7.4.17. When translated into actual numbers, the percentages do not represent a large part of the population. They nevertheless represent a non-negligible proportion of key demographic groups, particularly given that other BBC television services have seen a decline in their unique reach over the same period. While younger viewers are generally difficult to reach because they consume less television overall, an abrupt transition to an online offer nevertheless carries risk. We predict that by 2017 the closure of BBC Three as a linear channel will cause a reduction between 1.3% and 1.5% of BBC television reach among the entire UK population and 3% - 3.5% of BBC television reach among those aged 16-34.\(^1\)\(^6\) We have used a range of values because of the inherent uncertainty associated with the growth in reach over time.\(^2\)

Recovery via BBC Three online

7.4.18. We then considered the extent to which the launch of BBC Three Online would allow the BBC to recover lost reach. The Executive suggests that four factors are relevant when considering the possible effects of the proposal on total viewing:

- capture of consumption that would previously have taken place via the linear schedule but will (per force) happen online
- loss of promotion by a linear channel
- benefits of BBC Three being ‘built for online’
- reduction in content budget

Capture of consumption

The linear schedule inarguably drives online consumption. If a programme is only available online, viewers who previously watched it on television may shift their consumption online. However this effect may fade over time. As familiar shows drop out of the linear schedule, BBC Three will be increasingly dependent on online discovery.

Loss of promotion by a linear channel

In a bid to calculate the impact of the loss of linear promotion, the Executive compared the percentage of users who went to BBC iPlayer to find a specific programme with those who went to discover new content. It calculated that the loss of linear promotion would cause a reduction in viewing of 31% by 2017 and we believe that both the approach and the projection are sensible.

\(^1\) Note that a proportion of this group might be consumers of BBC online and/or radio services.

\(^2\) The impact on particular demographic groups is analysed in more detail in our equality impact assessment published alongside this document.
Benefits of BBC Three being ‘built for online’

The Executive considers that specific content produced for online is likely to increase consumption relative to the current offer. However, it recognises that it is challenging to estimate how great an increase might result and has assumed the greater flexibility would bring a 25% uplift. We agree with this approach and believe that the considerations supporting it are sensible. We performed some sensitivity analysis assuming a 50% uplift and found that the difference in the final result was not material.

Reduction in content budget

The Executive estimated that a reduction in the content budget to c. £30m will cause a corresponding reduction in BBC Three online consumption of 44%. We agree that the budget may have an impact on viewing and that it is sensible to consider its impact in the model. However we adjusted the figure to 47% following further information from the Executive. 163

7.4.19. Using the methodology proposed by the Executive and the assumptions above, we calculate that the launch of BBC Three as an online channel would bring an increase of 0.02% of total television viewing by 2017.

Impact on reach

7.4.20. The task of calculating reach for an online offer is quite difficult and prone to error. BBC iPlayer volumes are recorded by measuring the number of devices that access the service, and the only data available on reach are collected on the basis of self-reporting surveys. We therefore considered whether we could identify a lower and upper bound for online reach. As a starting point we considered whether the linear television share/reach relationship could relate to online television. We had regard to the following factors:

- It requires less effort to flick through the television schedule than to browse for content online
- People who do find content to watch online are therefore more likely to watch it for longer (i.e., more than 15 minutes, which is the BBC measure of reach)

7.4.21. While BBC Three online will have a much smaller share than BBC linear channels, channels with smaller share quickly gain reach as they gain share, as there is a large pool of previously unreached viewers to capture. This suggests that the transformation coefficient between share and reach should be higher for BBC Three as an online channel than for other BBC television channels. We therefore believe that a good proxy for a lower bound online television share/reach transformation ratio is 0.36. 164

7.4.22. Given limited data and the inherent uncertainty in relating linear performance to the online offer we were not able to identify an upper bound for the share/reach transformation coefficient for online consumption. We therefore used the 0.36 share/reach transformation coefficient to calculate the lower bound increment in reach that BBC Three online could add to total BBC television reach. Using this value we forecast that BBC Three online could increase total BBC television reach by a minimum by 0.007% by 2017.

---

163 As referenced at section 2, ‘Summary of the proposals’.
164 The value identified by the Executive for linear BBC group television.
The potential of BBC Three online is hampered by limited reach in its early years and will not provide clear immediate compensation for the loss of viewers resulting from the closure of the linear channel. We recognise, however, that in the case of a new service (and in particular where that service is online) lower reach is generally to be expected initially and can furthermore result from a combination of factors (such as access to a reliable internet connection or awareness of the offer). While we believe that up to 80% of those who are uniquely reached by BBC Three as a linear channel may be lost to the BBC, there is some evidence from our quantitative study that these groups are more likely to use an online offer than other demographics. Nevertheless, ethnic minorities, who form part of the uniquely reached audience, are also proportionally more likely to have slower broadband groups; we therefore adopted a cautious approach, which is broadly in line with the Executive’s own projections.

**7.5. Impact on citizens and society**

7.5.1. In this section we consider the impact of the proposals in terms of their benefit for consumers or citizens and society as a whole. The concept of an online video offer for a younger audience has intuitive force. Those aged 16-34 have higher levels of internet access than any other demographic and are more likely to use online video services. They represent 25% of the UK population but account for c.40% of users of BBC iPlayer. Further, the BBC has a successful record of attracting young users to its online offers: the Radio 1 branded space on BBC iPlayer, which launched in 2014, received two million visits in its first three months. In the same way, BBC Three Online will provide a gateway to the full range of BBC content and may help to improve its connection with a younger audience whose consumption patterns are rapidly changing.

7.5.2. Our own projections, however, suggest that BBC Three Online will deliver limited reach in its early years. Our overall conclusion therefore is one of more limited impact. This is tied, at least in part, to the ability of the site to attract users. A decisive factor in the success of online offers is visibility. A successful VOD site depends not only on the content it carries to attract users but also on the level of awareness. In this sense, brand matters. Linear television still plays a central role in directing users to on-demand offers – offers that would otherwise struggle to compete. This has explanatory force. In an online, on-demand environment, dominated by media giants such as Netflix, Amazon Prime and iTunes, the ability of the (generally much smaller) broadcasters to cross-promote their content is critical. This is reinforced by our own research and it captures the way in which people use broadcaster on-demand services today. Audiences do not (generally) watch BBC iPlayer instead of watching BBC television. Rather, the reach of BBC iPlayer mirrors that of linear television, which implies that the television schedule drives BBC iPlayer consumption.

7.5.3. While linear promotion is an important driver of online consumption, social media can aid discovery. At peak times, 40% of UK Twitter traffic relates to television programmes. BBC Three Online will have greater integration with social media but the loss of a linear schedule could prove decisive. BBC Three Online will be heavily

---

165 See our equality impact assessment published alongside this document.
166 BBC Executive, BBC iPlayer Performance Pack, February 2015, pp.16.
167 BBC Executive, 2015.
168 This is an area where BBC Three performs well. Its share of Twitter television traffic is around 3x its share of viewing. Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment, 2015, pp.29.
dependent on online discovery but research by Communications Chambers found that 73% of users of online television services used them only or mainly for specific programmes while just 6% used them to browse (and even browsers may select familiar rather than new programmes).\textsuperscript{169} This suggests that online television services are primarily \textit{a delivery} rather than a \textit{discovery} mechanism.

7.5.4. Research by Ofcom points in the same direction. It found that the main reason people use a VOD service is to catch up on a television programme they have missed (at 61%).\textsuperscript{170} Perhaps because of this, participants in a study commissioned by the Executive said that BBC Three Online might struggle to gain their attention.\textsuperscript{171} This concern is borne out by the current performance of BBC Three online. Despite attempts to innovate and develop programmes with integral online elements, awareness and usage is low compared with other BBC sites aimed at younger people.\textsuperscript{172} Our own research also found that BBC Three output on social media sites such as Facebook, Twitter or Snapchat was used by only five per cent of all adults.\textsuperscript{173}

7.5.5. That linear promotion is a key driver of online consumption is clear enough. The impact of the loss of linear promotion however is difficult to determine. It may be that as VOD services mature, audiences are more likely to use them as a destination in their own right, one that facilitates discovery in much the same way that we flick through channels with a remote control today. Early signs of this trend can be seen in the patterns of usage of BBC iPlayer. In 2009 30% of iPlayer users visited without a specific programme in mind but by 2013 40% did so.\textsuperscript{174} This is fortified by our own research, which found that 45% of those aged 16-24 and 39% of those aged 25-34 often go online to browse for television programmes.\textsuperscript{175} The tendency to browse is proportionally higher among BAME viewers (43%), students (50%) and regular BBC iPlayer users (41%).\textsuperscript{176} Furthermore, it is likely that the proposals will help to accelerate this trend and increase the usage of BBC iPlayer as a discovery tool. Nevertheless, the overwhelming preference, even among younger viewers, is to watch programmes on a television set. Reflecting a widely held view, one consultation respondent noted:

\begin{quote}
\textit{BBC3 is one of the best channels on television and taking it away would leave very little opportunity for young adults to watch their favourite programmes. Not all young people like to watch everything on the internet.}
\end{quote}

(16-24, female)

7.5.6. Stakeholders were also concerned about the loss of the linear channel and its impact on a younger audience. Voice of the Listener and Viewer (VLV) noted that BBC Three made a valuable contribution to engaging young audiences with content that broadens their understanding of the world and argued forcefully against the move online:

\begin{quote}
\textit{BBC Three, providing distinctive PSB content especially in the current affairs and factual genres, needs to remain on a broadcast platform because it plays an important role of...}
\end{quote}

\textsuperscript{169} Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment, 2015, pp.27-28.
\textsuperscript{170} Ofcom, Communications Market Report, 2014, pp.149.
\textsuperscript{171} PAPA, Deliberative audience research into the proposed changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp.24.
\textsuperscript{172} BBC Executive, 2015.
\textsuperscript{173} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.15.
\textsuperscript{174} From a self-selecting sample. BBC Online Quality Survey, 2014.
\textsuperscript{175} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.31.
\textsuperscript{176} Ibid, pp.31.
role in delivering the public purposes to a younger adult audience. It specifically helps younger UK citizens make sense of the world and to learn about the lives of people in other countries. Without this content being available on a platform with significant reach, there is a risk that the BBC will not fulfil its global purpose with young adult audiences.

7.5.7. The impact on younger viewers was also a concern for Pact, which suggested that closure would have a disproportionate impact on younger viewers and that it was ‘a strategic error which undermines the relationship between the BBC and a large proportion of its current and future audiences.’ Other stakeholders viewed the proposals more favourably. Audience Council England welcomed the move but cautioned that it ‘should be developed as a phased transition, rather than through an immediate closure of the BBC Three channel and a simultaneous launch as an online only channel.’

7.5.8. Despite the fact the younger viewers are more likely to watch BBC Three programmes on-demand than other age groups, and to stream the channel live, the loss of the linear channel was nevertheless a concern to a large number. Many respondents to our public consultation grounded their objection to the proposal in existing viewing habits. For many, laptops, tablets and PCs do not lend themselves to watching programmes. Some feel that television has a communal aspect, which these devices lack, while others believe that their ability to discover BBC Three programmes spontaneously using the remote control to flick through channels will be lost.

Keeping it as a television channel also enables greater possibilities to encourage accidental viewing - when a show is caught channel hopping, or before/after an intended viewing of an episode of a show you currently watch.

(consultation respondent, demographic information not supplied)

7.5.9. At least part of this concern is traceable to the way in which BBC Three is watched – later at night when audiences are in a ‘lean back’ mode. These general concerns led some to conclude that BBC Three would therefore have to be advertised, not only on social media sites but also on the broadcast channels to militate against this risk. Others doubted that BBC Three would have the budget or the prominence to compete with online platforms such as Netflix and Amazon.

7.5.10. While consultation respondents were, overall, opposed to the move and doubtful that the online offer would have sufficient pull, a small number of respondents, while not necessarily supportive of the proposals, was prepared to watch BBC Three if it moved online. The reasons for continued viewing included the overall quality of content and a willingness to carry on watching programmes currently shown on BBC Three. Furthermore, among some of those who did support the changes, there was a sense that online viewing was becoming the norm. A handful of these respondents spend more time viewing online than via a broadcast channel, as one observed:

With the change in television viewing habits, I tend to watch television equally on television and laptop, and especially in the case of BBC Three, which I watch almost exclusively online.

(25-34, female)

7.5.11. Other concerns were grounded in the perception that the BBC was abandoning a younger audience and appealed to universality, broadband access and fairness. For a sizeable minority of consultation respondents the proposal for BBC Three makes the licence fee harder to justify. Reflecting a commonly held view, one noted:

*BBC3 is the only BBC channel aimed at youths on the television, if you take that away from the television there will be nothing for us to watch on the television anymore. We pay a television license too, so why should we have to lose out on the only thing directed at us.*

(16-24, female)

7.5.12. We share concerns raised by stakeholders and the public about internet access and the risk that an online-only offer will preclude access to certain groups. We also recognise that even for younger viewers, television remains important. It leads us to conclude that the benefits of the proposal for relevant users and society as a whole are somewhat limited, at least initially when the number of users is likely to be relatively low. Nevertheless, we recognise that the BBC has a proven record in building audiences for new offers and that the proposal responds to changing patterns of viewing and will help the BBC to prepare for a digital future in a way that may deliver greater benefits over time. We consider that one of the difficulties in the near-term beyond ensuring that someone has a reliable internet connection, and a good level of awareness, is in reproducing the characteristics of the linear channel in an online offer, something we consider in the section that follows.

7.6. **Success factors of an online offer**

7.6.1. Given the proposal is focused to a very large extent on preparing for a digital future we considered whether certain factors were likely to drive usage. That online consumption is not yet a substitute for linear viewing does not forestall its potential. We can see value in an online video offer that responds to the structural shift in television viewing and the need to prepare for this shift today. But we also recognise that barriers to broader use (at least in the near-term) remain. We can categorise these barriers as follows:

(i) **Awareness**: high visibility, strong brand, ability to attract users in the absence of a linear schedule to drive online consumption

(ii) **Acceptability**: familiarity, ease of use, ability to satisfy different ‘need states’ and enable shared viewing

(iii) **Accessibility**: a reliable, affordable broadband connection or continued access to programmes on the linear schedule for those who do not have this

7.6.2. The linear schedule is an important driver of online consumption and a decisive factor in the success of any offer. It plays a central role in directing viewers to on-demand offers that would otherwise struggle to compete. The Executive has proposed a range of measures to promote awareness of BBC Three online, including a branded area on

---

179 Subject to our concerns about quality raised by this assessment that might otherwise affect uptake as set out above.
BBC Online, third-party sites such as YouTube, late night slots on BBC One and Two and (potentially) BBC Red Button.\textsuperscript{180}

7.6.3. We agree that this will help to generate awareness and drive usage. In the case of the linear slots, it will also maximise the availability of content and reach a wider audience. Shows that transfer from BBC Three to BBC One and BBC Two generally tend to maintain their share of viewing among young adults (Table 14).\textsuperscript{181} However the proposal does not entail a firm commitment to the use of the slots on a more permanent basis and we believe this will hamper efforts to promote awareness of the offer and build an audience. We note moreover, that the use of linear slots would also help to address the remaining two barriers to broader use, discussed below.

Table 14: programmes that have transferred from BBC Three to other channels (BARB)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Channel</th>
<th>Individuals Share</th>
<th>16-34 Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backchat with Jack Whitehall and his Dad</td>
<td>BBC Two</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>BBC Three</td>
<td>1.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Cuckoo</td>
<td>BBC One</td>
<td>3.7</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>BBC Three</td>
<td>1.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Live at the Apollo</td>
<td>BBC One</td>
<td>7.8</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td>BBC Three</td>
<td>1.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Russell Howard's Good News</td>
<td>BBC Two</td>
<td>2.6</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>BBC Three</td>
<td>1.7</td>
<td>4.1</td>
</tr>
</tbody>
</table>

(ii) Acceptability

7.6.4. While young people watch less, and they tend to watch later, they nevertheless still watch. This may be anchored in the ability of television to satisfy a broad range of audience needs. Core viewers value BBC Three as a reliable, ‘go to’ channel that satisfies a particular need state. Viewing for BBC Three peaks in the evening and viewers tend to prefer a ‘lean back’ experience that requires minimal effort at this time. We know from this that one of the barriers to broader uptake of an online offer is its ability to satisfy these different need states.

7.6.5. Younger viewers are proportionally more likely to use on-demand services and they are somewhat more likely to watch programmes they have not seen on television. Just over 20% of the viewing time of those aged 16-24 is spent watching online content and this is growing. Further, as we have seen from our own study, younger viewers are significantly more likely than the audience overall to watch BBC Three programmes on-demand.\textsuperscript{182} What is lacking is an experience that reproduces the essential characteristics of the linear service, one that requires minimal effort and satisfies their desire for a lean back experience, which can be enjoyed with other people.

7.6.6. This points to large screens, which enable communal viewing, but in an online world, they must be connected.\textsuperscript{183} A growing number is: Decipher estimates that 38% of UK households has an internet-enabled set-top-box.\textsuperscript{184} While smart televisions are in a modest 12% of all households, they are rapidly gaining share and account for 45% of

\textsuperscript{180} BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.29-30.
\textsuperscript{181} The viewing characteristics of those aged 16-34 are relatively stable, rising gradually and peaking at around 10pm (BBC Three has a later peak between 11pm and midnight, whereas BBC One peaks between 8-9pm).
\textsuperscript{182} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.13.
\textsuperscript{183} A number of different devices can be used to connect a television to the internet, including games consoles, set-top-boxes and BluRay/ DVD players.
\textsuperscript{184} Quoted in Ofcom, Communications Market Report, 2014, pp.131.
all television sales. Furthermore, people are increasingly likely to use these devices to watch content online. Research by Ofcom found 81% of those with a television connected via a set-top box, had watched programmes or films on a catch-up service, compared with 73% of smart television owners, and 72% of those connected to the internet via other devices.

7.6.7. This in turn is opening new areas for online content and facilitating more traditional ways in which it can be watched. It is fortified by research from the BBC which found that the usage of BBC iPlayer on a television set is closer to the pattern of television viewing than of internet use, with proportionally more viewing in the daytime and late peak hours (Figure 12). On television platforms, BBC iPlayer is often used for shared viewing and this allows for a social experience similar to linear viewing. Given that 20% of BBC Three viewers claims to watch the channel on a smart television, it paves the way for sections of the audience to progress to the online only offer.

7.6.8. We recognise of course that such a shift is likely to be gradual and depends, crucially, on an experience that is easy to use, one that makes onward journeys as easy as channel hopping and reflects the language of television guides rather than the internet. Rather, the point is that, in some households, a shift is already underway and it provides a reasonable indicator of future viewing behaviour. Further, if usage of BBC iPlayer traces to the pattern of television viewing, an online offer that is available 24 hours a day provides for more flexible access which may over time generate a corresponding uplift in reach.

Figure 12: BBC iPlayer – use for television online by time of day

(iii) Accessibility

7.6.9. The final barrier to broader uptake relates to access, that is an affordable, reliable broadband connection with sufficient capacity to provide access to data, voice and video content. There is still some way to go. While over 90% of 16-34 year olds have a household internet connection variations in speed and performance persist. Slow broadband speeds at peak times, download limits or usage caps and multiple devices attached to the same internet connection affect performance and can limit uptake. The

188 BBC Executive, Developing BBC iPlayer - Insights and opportunities revealed by audience research over the last year, 2013, pp2.
problem has both a socioeconomic and a geographic dimension.\textsuperscript{190} Thus, a move online at this time has to be evaluated in the context of the BBC’s duty to provide free to air services universally across the UK (which we refer to as ‘universality’). For those who do not have a reliable internet connection, continued access to programmes on the linear schedule is one way to address this barrier.

\section*{7.7. Value for money}

\subsection*{7.7.1. An important driver of public value is whether a proposal provides value for money. BBC Three online will have an annual content budget of £30m per annum (excluding £[ - REDACTED ] for news and £[ - REDACTED ] for sports and other allocated costs). The Executive has yet to fully model infrastructure and distribution costs for BBC Three online but has confirmed that distribution costs would include IP distribution costs of approximately £[ - REDACTED ] per annum by 2017-18. This was calculated using reach projections, a unit cost price and an average bit rate.\textsuperscript{191}

\subsection*{7.7.2. The online offer also has some one-off implementation costs (primarily associated with developing the existing BBC Three website) estimated to be between £[ - REDACTED ] after factoring in the impact of the delay to launch.\textsuperscript{192} The Executive has confirmed these costs are covered within the core television budget.}

\begin{table}[h]
\centering
\caption{BBC Three costs (£m)}
\begin{tabular}{|l|c|}
\hline
\textbf{BBC Three Online} & \textbf{2017-18 £m} \\
\hline
Estimated annual cost & 30.0 \\
(excluding implementation and distribution costs, news and sport and other allocated costs) & \\
\hline
\end{tabular}
\end{table}

\subsection*{7.7.3. Given the low number of users (at least in the early years of the service) compared with the investment required, we consider that this element of the package offers low value for money. However, the Executive could maximise its investment and reach a wider audience by making content more widely available on linear channels and this would in our view secure greater value for money. We also acknowledge the benefits that flow from the overall package, made possible by savings released from the closure of the linear channel.\textsuperscript{193}}

\section*{7.8. Additional concerns raised by stakeholders}

\subsection*{7.8.1. Our assessment uncovered a number of additional issues related to the closure of the linear channel. There was a strong sense among consultation respondents that savings could be made elsewhere\textsuperscript{194} and a sizeable minority felt that the proposal would undermine the value of the licence fee. In a bid to mitigate against the loss of}

\footnotesize{\textsuperscript{190} For a full discussion, see section 7, ‘Assessment of core proposal’, of this report.}

\footnotesize{\textsuperscript{191} BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, pp.20.}

\footnotesize{\textsuperscript{192} BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.72 stated that one off implementation costs were in the region of £[ - REDACTED ]. Due to the delay in launch of reinvention of BBC Three as an online service one off implementation costs have increased by £[ - REDACTED ].}

\footnotesize{\textsuperscript{193} Our full assessment of costs can be found at annex III.}

\footnotesize{\textsuperscript{194} BBC Four was most commonly mentioned in this context. BBC Parliament was also raised.}
universality, IBT wanted to see BBC Three long-form programmes, amounting to one to two hours per week, transmitted on BBC One and BBC Two.

7.8.2. In terms of the financial case more generally, a large number of stakeholders raised concerns about its rationale. The Commercial Broadcasters’ Association (COBA) was among those who did not believe that the Executive had made the case for closing BBC Three. It suggested that the proposal was motivated by the need to make savings but pointed out that by reinvesting these in drama, the proposals were in fact ‘cost-neutral’. This concern was echoed by Pact, which suggested that given the ‘relatively small financial savings’ the case for closure had not been convincingly made. VLV argued that the financial benefits that would accrue to other services did not in its view justify the closure of BBC Three as a linear channel. Equity meanwhile was concerned that ‘due to pressure exerted by politicians and media rivals, the BBC has been forced to narrow the range of services available to the public.’

7.8.3. While the proposal was motivated by falling income and funding pressures, the Executive in its application notes that the proposals were largely cost neutral and this is borne out by our own analysis. A number of stakeholders was concerned that the BBC had not exhausted all alternatives to closure. One in particular, Avalon, considered that the BBC had not properly considered the options to closure and proposed a range of alternatives. We note that the Executive considered scaling down BBC Three, rather than closing it, but concluded that it would not deliver sufficient financial savings or allow the BBC to develop the strategic opportunity to reinvent BBC Three as an online offering. While we have noted the alternative options put forward by stakeholders and the Executive, they do not form part of the application submitted by the Executive that is subject to our assessment. Furthermore, none of the alternatives are so obviously viable that we would consider not assessing the Executive proposals.

7.9. **Concluding remarks**

7.9.1. Our overall assessment is that the proposals for BBC Three will deliver low to medium public value. We have reached this view by reference to the public purposes of the BBC, the key drivers of public value and the strategic and financial rationale.

7.9.2. The decision to move BBC Three online is a future-facing move that few commercial broadcasters would consider at this point in time. It is moreover the first time in its history that the BBC has proposed the closure of a television service. While closure is motivated by financial constraints it is also in response to a structural shift in viewing patterns. The BBC has a duty to serve all audiences and reach among young adults is in decline. The BBC therefore needs to modernise its portfolio and reconnect with a younger audience. The proposal aims to increase the distinctiveness and quality of BBC Three content by reducing the emphasis on lighter features and formats and increasing the focus on factual and comedy. The scale of the proposed investment is likely to mean that the BBC will bring high-quality production values to an online environment. BBC Three Online will act as a gateway to the full range of BBC content and help improve its connection with an important but under-served audience.

7.9.3. Nevertheless, we have a number of concerns. The quality and breadth of content will depend on access to writers, producers and actors but stakeholders argue that linear

---

television is the best way to build brands, launch shows and attract talent and that an online offer has limited pull. We are particularly concerned about access for those without a reliable internet connection, which will inevitably effect perceptions of quality but also raises an issue of universality. We recognise that there are always likely to be variations in reach among different audience groups. Nevertheless, the universal licence fee means that the BBC aims to serve all audiences and an online only offer represents a barrier to use, in particular for groups that the BBC has the most difficulty in reaching (such as young C2DE adults and BAME groups).

7.9.4. While our assessment points towards a clear shift in the consumption patterns of young adults, not everyone has a reliable internet connection and for many young people, television still retains an important place in the media landscape.

7.9.5. Nevertheless, the trend in viewing has been towards a shift online with young adults at the vanguard. The proposals for BBC Three respond to this shift and have the potential to deliver greater value over time. While the public value is low to medium, we consider that low reach can be mitigated to some extent, provided that the three barriers to use that we identified (awareness, acceptability and accessibility) are properly addressed.

7.9.6. Having assessed the core offer, we can now consider in the section that follows the remaining proposals that form part of the overall package. We consider each in turn, before making an overall assessment, both on cumulative reach that is likely to obtain from the package of proposals and the aggregate value it is likely to generate. As before, our assessment in each case is weighted by the significance of each driver for the proposal under assessment and its respective contribution to the delivery of the public purposes.
8. Launch of BBC One +1

8.1. Introduction

8.1.1. The launch of a +1 channel for BBC One forms part of the package of proposals. The channel would be broadcast 24 hours a day, seven days a week in standard definition. It would not however offer national or regional variants. Hence, when BBC One aired a regional programme (for example, Inside Out in the English regions or X-ray on BBC Wales) BBC One+1 would instead carry the BBC News channel.

8.1.2. Further, while BBC One +1 would be carried on all platforms, on DTT it would only be available to households with a YouView or Freeview HD television or set-top box. This is because the service would be broadcast on the PSB-3 multiplex and households would need a YouView or Freeview HD television or set-top box in order to receive it.196 Around 24% of UK television households would therefore need to upgrade their equipment. The proposal included a plan to migrate BBC One +1 to the BBC A multiplex, which is available to all DTT households in 2017. However this was contingent on future encoding efficiencies and lacked firm detail. We therefore considered the plan to be an aspiration rather than a firm commitment and did not factor it into our analysis.

8.1.3. Unlike BBC Three, which is carried on BBC A, BBC One +1 would be carried on the PSB-3 multiplex, so is not dependent on the closure of BBC Three to release capacity.197 The ease with which viewers can find the BBC One+1 service meanwhile, will depend in part on the position it is given on the electronic programme guide.198 For the purpose of our assessment, we have assumed it will occupy slot 23 on the Freeview EPG.199

8.1.4. The Executive considered several alternatives to its proposals for BBC One +1, including a +1 that carried regional and national opt-outs and a peak-time only service. However these options were found to incur greater costs while delivering only a fraction more viewing (in the case of regional opt-outs) or to deliver less value to audiences (in the case of a peak-time only service) and were subsequently discounted. We have not therefore factored them into our assessment.

8.1.5. The Executive has explained that BBC One+1 supports a strategic objective to better serve the audience by increasing the availability of programmes for those who do not use BBC iPlayer or have access to broadband. It further hopes that the channel will strengthen the television portfolio and help to mitigate the short-term loss in reach among 16-34 year olds that is likely to result from the closure of BBC Three as a linear channel. In assessing this element of the package, we have therefore considered:

---

196 The BBC uses two multiplexes, PSB-1 and PSB-3, to broadcast its television channels. All Freeview homes are able to receive television services broadcast on PSB-1. However, because PSB-3 uses a more advanced technology (known as DVB-T2) only homes with a YouView or Freeview HD television or set-top box can receive its services. However, space on PSB-1 is limited and PSB-3 is currently the only multiplex with enough capacity to accommodate a 24/7 channel. BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, p.18.
197 The perceived dependency between the two was a source of confusion for some stakeholders.
198 Which is used to choose and access programmes on digital television.
199 The EPG position that BBC One+1 channel would occupy would depend on the listing policy of each particular platform and on Ofcom’s EPG code.
(i) Audience demand for and usage of +1 services
(ii) Which groups are more likely to use the service
(iii) Whether there any demographic groups that will not have access to the service (by virtue of the fact that they do not have DVB-T2 devices)

8.2. Contribution to the public purposes

8.2.1. There are six public purposes and every BBC service should further them in some way.

Figure 13: BBC public purposes

8.2.2. An important part of our assessment therefore was potential contribution of BBC One +1 to the public purposes. The proposal is located within a wider BBC strategy to enable multiple points of engagement (or opportunities to view) within a broad portfolio of services. The Executive suggests that a +1 will provide a cost-effective catch-up option for the c.50% of households that do not use BBC iPlayer or have access to broadband.²⁰⁰ By extending the availability of drama, music, arts, factual and current affairs output, it will make an important contribution both to the creativity and culture purpose and the education and learning purpose. The Executive further maintains that the +1 variant will support the ‘communities’ purpose with titles that reflect the diversity of the UK.

8.2.3. While we agree that BBC One +1 will broaden availability, our projections suggest it will only minimally extend reach among the population overall (and among a young audience and those without access to BBC iPlayer) making its contribution to the public purposes less secure. Furthermore, a failure to provide national or regional variants weakens the overall offer and this is a particular concern, given that the ‘communities’ purpose performs poorly (see further below).

8.2.4. As part of our assessment, we also considered the drivers of public value, and have weighted them according to relevance to the strategic purpose of the proposal (Table 16).

Table 16: weighting the drivers of public value

<table>
<thead>
<tr>
<th>Driver of public value</th>
<th>Relevant consideration for BBC One +1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reach</td>
<td><strong>Very important</strong>: channel needs to demonstrate reach among a younger audience to mitigate the short-term loss of viewers resulting from closure of BBC Three as a broadcast channel and among those who do not have broadband access</td>
</tr>
<tr>
<td>Quality and distinctiveness</td>
<td><strong>Important</strong>: the offer should meet audience expectations and increase opportunities to watch BBC One programmes</td>
</tr>
</tbody>
</table>

8.3. Quality and distinctiveness

8.3.1. An important part of our assessment was whether the proposed offer was of high quality and distinctive. The BBC has a corporate objective to focus on quality and distinctiveness. As part of this, it is required to offer fresh approaches, set trends and take creative risks. Furthermore, as the only publicly funded broadcaster in the UK, the BBC carries a special responsibility to be different from commercial broadcasters. We therefore had regard to the following criteria (Table 17).

Table 17: quality and distinctiveness criteria

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Requirement</th>
<th>BBC One +1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Editorial values</td>
<td>Reflects BBC values</td>
<td>✓</td>
</tr>
<tr>
<td>2. Originality</td>
<td>Fresh approach, breaks new ground, sets trends</td>
<td>x</td>
</tr>
<tr>
<td>3. Creative ambition</td>
<td>Takes creative risks</td>
<td>x</td>
</tr>
</tbody>
</table>

8.3.2. While BBC One provides a wide range of high-quality output, enjoyed by audiences, we nevertheless consider that the proposed +1 variant will offer only low quality. While BBC One +1 will broaden the availability of programmes broadcast on BBC One, by definition they will be repeats of content on the main channel. Quality is further undermined by a failure to provide national or regional opt-outs. Audiences value national and regional output and see it as an important part of the BBC remit. In the 2014 Television Services Review, the Trust found that opt-out programmes in the devolved nations in particular have a positive impact on the performance of BBC One. In England, meanwhile, the regional news and weather on BBC One is consistently in the top 10 programmes attracting an audience of around five million. Our findings are fortified by Ofcom, which found that people attach a high level of importance to this type of programming, and in particular to news.

8.3.3. Despite the importance of national and regional output, the ‘nations and regions’ purpose attracts a consistently low rating. It is the worst performing BBC purpose with an average performance score of 52% in 2013 and a gap of -10 for drama and -11 for news and current affairs. Furthermore, the performance scores vary significantly by nation. Those in England are more likely to agree that the BBC is good at representing their region, followed by those in Northern Ireland, Wales and Scotland. The scores for England however vary significantly by region. Participants from London award significantly higher scores than elsewhere. If London was excluded

---

203 Ofcom, PSB Tracking Survey (2014)
204 To represent the UK, its nations, regions and communities, BBC Trust, Purpose Remit Survey UK Report, 2013, pp.28.
205 Ibid, pp. 28.
from the sample, there would be no significant difference between England, Wales and Northern Ireland. This suggests a broader problem across the UK, which the proposals for BBC One +1 are in our view unlikely to address.

8.3.4. The failure to offer nations and regions variants was considered by Audience Council Wales to be a key weakness of the proposed channel, one which would:

*seriously undermine the BBC’s purposes (and in particular the citizenship purpose were Wales news to be absent from the offering) as well as deprive audiences in Wales of programmes which consistently out-perform network content. With the current absence of nations programmes on the BBC’s HD channels, the Council would be implacably opposed to a BBC One+1 provision, which also failed to include nations programming.*

8.3.5. [ - REDACTED ]

The [ - REDACTED ] meanwhile suggested that the technical difficulties preventing opt-out programmes should at the very least be addressed when the service moves to BBC A, and that the regional and national opt-outs should be available on other platforms. The lack of regional programming also attracted censure from some consultation respondents some of whom noted that ITV was able to show regional programmes.

8.3.6. Other stakeholders were critical that the proposal did not address Trust concerns about the distinctiveness of BBC One, while some perceived it as a retrograde step that was at odds with a broader shift online. The Executive suggests that quality is delivered through the provision of a catch-up service for those who do not use BBC iPlayer or have access to broadband. While this has force and public consultation responses tend to agree, the evidence is less decisive. BBC One +1 would not be universally available on DTT from launch. Just under a quarter (24%) of all UK television households would need to upgrade their television or set-top box in order to receive the service. It is not clear however that these households would have either the means or the inclination to upgrade initially, something we consider below.

8.3.7. We believe furthermore that the launch of a +1 channel fails to satisfy the important criterion of distinctiveness, and several stakeholders made a similar point. [ - REDACTED ] was critical that the proposal was overly concerned with maximising share and that ‘the licence fee is specifically designed to liberate the BBC from the need to operate in the same way as the commercial sector.’ Channel 4 meanwhile argued that the BBC ‘should prioritise original public service content investment as far as possible.’

8.3.8. Virgin Media maintained that repeat programmes were ‘no substitute for first-run UK commissions’ and suggested that the BBC should instead work ‘more closely with platforms such as Virgin Media to highlight the advantages of the many existing opportunities for end users to consume time-shifted content’ as well as emerging new technologies. It was among a number of stakeholders who argued that BBC One +1 should not qualify for prominence on the EPG. Viacom cautioned against the use of

---

206 The Executive proposed moving the service at some point to PSB-1 but stopped short of making a firm commitment.
207 As per the figures used in the Communications Chambers model.
spectrum and EPG positions without ‘strong and sustained’ reasons. Others were concerned that the proposal would divert investment from original public service content. There was however limited support from some areas. Given problems with the quality of live subtitles, Action on Hearing Loss suggested that a +1 channel could address this and ‘vastly improve the viewing experience of people watching the news and other live television.’

8.3.9. While BBC One +1 would of necessity reflect the editorial values of its parent channel, a failure to provide opt-out programmes weakens the value of the overall offer. Part of the remit of BBC One is to reflect the whole of the UK in its output and the ability to do so forms one of the aims and objectives of the service as set out in its licence.208

Content that comes from, and reflects, the nations, regions and communities of the UK should feature on BBC One, including during peak time – helping to make BBC One's schedule distinctive in comparison with other mass appeal channels. It should offer opt-out programming for audiences in the BBC's nations and regions.

8.3.10. Taking these factors into account, our overall assessment of quality and distinctiveness is therefore low.

8.4. Reach among key audience groups

8.4.1. An important part of our assessment is the impact of the proposal on BBC reach. Clause 12 of the Framework Agreement requires the BBC to ‘do all that is reasonably practicable to ensure that viewers, listeners and other users are able to access the UK public services that are intended for them... in a range of convenient and cost effective ways.’209 A useful measure of reach, tied to the achievement of the public purposes, is the extent to which certain audience groups will use the proposed service. For this assessment, we had particular regard to young adults aged 16-34 and those without access to broadband.

8.4.2. In its assessment of reach, the Executive undertook an econometric analysis of the drivers of +1 channel share relative to the relevant parent. As a comparator set it used the four main ITV channels, Channel 4, Channel 5, E4 and Dave. As explanatory variables, it used the EPG gap between the parent and the +1, and the scale of the parent channel. It estimated that BBC One+1 would have a share of total viewing of 1.6% in 2017. It further concluded that 70% of new viewing would be incremental and 30% would be at the expense of the parent channel.210 It concluded that the net impact of BBC One+1 on the BBC family share of viewing was equal to +0.8 percentage points. Using the share/reach transformation ratio equal to 0.36 it estimated an increment in overall television reach of 0.3% with a 0.5% gain in reach for those aged 16-34.

8.4.3. We believe that the econometric approach is sensible and agree that the choice of channels and the use of EPG delta for analysis are appropriate. However the econometric model proposed by the Executive has some limitations:

- the data set is made from a limited number of observations

208 BBC One Service Licence, 2015, pp.1-2.
209 BBC Charter and Agreement with Her Majesty's Secretary of State for Culture, Media and Sport, 2006, pp.6.
210 Communications Chambers, 2015, Forecast Consumption and Preliminary Market Impact Assessment of Revised BBC Services, pp. 38.
• the variables used have a low explanatory power
• the model specification superimposes a relationship between parent and +1 channel that appears overly restrictive

8.4.4. In its assessment, Ofcom used a different approach to assessing the likely effects of BBC One +1, which we consider more reliable. Ofcom gathered data for each channel on each of the three major platforms (Freeview, Sky and Virgin Media) and used input data for 2011, 2012 and 2013. It also considered additional independent variables, including:

• the demographic skew of the channel towards adults aged 16-34
• a PSB dummy variable (whether the channel is a PSB channel or not)
• share of viewing of the main channel only

8.4.5. Ofcom considered two approaches to the dependent variable both of which satisfied standard statistical diagnostic tests and out-of-sample predictions. With little to distinguish between them, we used both to bound a reasonable range of estimates of BBC One +1 share, considering for reach the mid-point between the share estimates produced by each one. According to Ofcom this is equal to 0.53 percentage points in 2017. Using the share/reach ratio identified by the Executive, this translates into an increment in reach of 0.19% across the entire UK population. We then looked at the age profiles for channels and their corresponding +1 to understand how the increment in share could be distributed across different age groups.

Figure 14: total population average age of viewers

Source: BARB, Trust Analysis

8.4.6. When looking at the entire population, on average, plus one channels have an audience three years younger than their parent channel. The difference however is mainly driven by those aged over 65, whose consumption of plus one channels is 10% lower than that of parent channels. When we exclude this group, the average age of viewers across the parent channels and plus one is broadly the same, with plus one

---

211 During our assessment, we consulted Ofcom on its methodology and considered that it was more robust.
212 Note that the implied reach of the not normalised model, which delivers a share increment equal to 0.42 percentage points, and of the normalised model, which delivers a share increase equal to 0.65 percentage points, are respectively equal to 0.15% and 0.23%, i.e. very close to the reach computed by using the mid-point method.
viewers being on average less than one year younger than those watching the parent channels. This suggests that, although a +1 channel can be more attractive for some age groups, the schedule element is stronger in driving the audience.

8.4.7. We then looked at the distribution of shares across different age groups and found, consistent with the Executive application, that 16-34 are slightly more likely than other age groups to watch +1 channels. We used this to assess the likely impact on reach on this group by considering:

- the total BBC television share variation due to BBC One +1 equal to 0.53 percentage points
- the share of this variation that will be captured by 16-34 year olds considering the actual proportion of 16-34 year olds that watch BBC One and the uplift of 2.7% associated with the likelihood of younger viewers to watch a plus one channel
- The share/reach ratio for the 16-34 age group 16-34 equal to 0.75%

8.4.8. Taking account of these factors, we forecast that BBC One +1 will provide a gain of 0.32% in reach among those aged 16-34. The intended balancing effect of a +1 channel against losses associated with the closure of BBC Three is therefore marginal, while reach among those without access to BBC iPlayer is also likely to be minimal.

8.5. Impact on citizens and society

8.5.1. In this section, we consider the impact of the proposals in terms of their benefits for consumers or citizens and society as a whole. We had particular regard not only to impact on younger audiences but also on groups who do not have access to BBC iPlayer (being, more generally those who are older or from low-income groups or both). With the proposed launch of a +1 channel the BBC is following the commercial PSB broadcasters, all of which have +1 variants. While we can see the appeal of a limited form of time shifting on linear television, the proposal is beset by difficulties, which make less secure the claims made for it by the Executive.

8.5.2. This element of the package (perhaps more than any other) generated broad opposition from industry, which perceived it as an aggressive move, unduly concerned with share. Some stakeholders characterised it as a retrograde step that was at odds with a broader shift online. While we accept the logic we make the point that not everyone has a reliable broadband connection or access to BBC iPlayer and that a +1 channel could potentially provide greater choice for this section of the audience.

8.5.3. A number of stakeholders were critical that costs were underplayed and argued that this would divert funds from programme making and into operational and distribution costs. Commercial broadcasters in particular were concerned that the move would significantly impact scheduling decisions. Sky was among those who believed the Executive had underestimated the potential increase in BBC viewing share and the consequent detriment to other broadcasters (in terms of lost viewing). This concern suggests that the channel would attract a large audience but the evidence from our analysis is mixed.

---

213 Note however that the relative share of +1 channel is notably lower than that of parent channels, and even if younger viewers are more likely to watch those channels, in absolute terms the shares of +1 channels is notably small.

214 Given BBC’s lower share in this age group, there is a 0.75 reach point gain per share point.
8.5.4. There was a spread of opinion among respondents to our public consultation. While some were in favour of a +1 channel, others saw little benefit. For many, BBC iPlayer was the preferred way to catch up, while others used PVR services such as Sky+ and TiVo from Virgin Media. Many of those who supported the proposal expressed a preference for television viewing and for a more communal experience. Support was also grounded in greater flexibility and an alternative to online catch-up services, in particular where broadband was unreliable. As one consultation respondent noted:

[It’s a] good idea, especially as not all households have the ability to stream content reliably or record live television

(male, 16-24)

8.5.5. Some concerns were grounded in universality. A number of consultation respondents noted that the channel should be available to all households from launch and many were concerned that they would need to upgrade their Freeview box. For others, alternative catch-up services, such as BBC iPlayer, nullified this concern. Others opposed the launch of BBC One +1 if it meant the closure of BBC Three (we note that there is no dependency). This traced to a general concern that the overall package discriminated against younger viewers while providing services (such as +1) to older groups who were already well served by the BBC. One noted:

Disgusting that you think there’s no money for BBC3 but there is money for this rubbish. So what if the BBC doesn't have a plus 1 channel? Why can't people catch up on BBC iPlayer instead of giving the older generation yet more and taking more away from the younger generation!

(male, 16-24)

8.5.6. Despite opposition to the +1 channel, many consultation respondents indicated that they would use it. Reflecting a fairly common view, one noted:

I use plus one services already and it gives greater flexibility to my television viewing. I am more likely to use this than an online catch-up service

(female, 25-34)

8.5.7. Despite attracting near universal opposition from industry and a mixed response from the public consultation, respondents to our quantitative survey tended to be more favourable in their assessment. When asked unprompted whether there was a need for the BBC to offer a +1 for any of its television channels, 65% believed there was, compared with 22% who disagreed.215 Opposition to the channel was generally grounded in the belief that the money would be better spent on original content or that BBC iPlayer was a sufficient catch-up service. Others believed that a +1 channel should not be considered at the expense of the closure of BBC Three as a broadcast channel.216 On learning about the specific proposal, respondents were broadly supportive: 50% rated it at least eight out of 10, while 14% was unfavourable and 29% was neutral with a score of between four and seven (Figure 15).

---

216 We note that there is no direct dependency between the launch of BBC One +1 and the closure of BBC Three as a linear channel to the extent that BBC One +1 would transmit on a different multiplex and would not be dependent for its launch on the capacity released by the closure of BBC Three.
**Figure 15:** how favourable would you find a BBC One +1 service, on scale of 1-10, where 1 is extremely unfavourable and 10 is extremely favourable

![Bar chart showing Net: Unfavourable (1-3) at 14% and Net: Favourable (8-10) at 50%]

**8.5.8.** The proposal drew above average support from women, middle-aged people and households with children. Social grade DEs, students and ethnic minorities meanwhile were less sympathetic. Support was lowest in particular among those aged 16-24 (43%), those aged 65+ (49%) and DEs (47%) and highest among those aged 55-65 (55%). Despite this significantly more people say they will use the proposed service if launched than not (61% versus 19%). Furthermore, the majority of those who favoured the launch of a +1 channel were also users of BBC iPlayer.

**Younger audiences**

**8.5.9.** The Executive suggests that BBC One +1 would mitigate some of the short-term impact of having to close BBC Three. But a number of stakeholders were doubtful that the age profile and content offer of BBC One would draw younger viewers to its +1 variant.

**8.5.10.** The concerns were echoed by Virgin Media which suggested that younger viewers were:

...far more ready to embrace catch-up content or viewing via apps and mobile than a +1 channel

**8.5.11.** Our research points in the same direction with support for a +1 channel lowest among those aged 16-24. was among a number of stakeholders who said it was not credible to position BBC One as part of a strategy to appeal to younger audiences when its age profile was gradually increasing and that only a radical change in programming could achieve that.

---

217 ICM, BBC Trust PVT Quantitative Survey, 2015, pp.36.
218 Ibid., pp.37.
219 BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.44.
220 ICM, BBC Trust PVT Quantitative Survey, 2015, pp.35.
8.5.12. While the age profile of BBC One reveals a pronounced gap between those aged 16-34 and the population overall, it nevertheless draws a large number of younger viewers in absolute terms and delivers the largest unique reach of any BBC channel, the equivalent of 1.19m 16-24 year olds. On that basis it represents a potentially credible strategy to attenuate the loss in younger viewers resulting from the closure of BBC Three as a broadcast channel. However, our research suggests that the gains among a younger audience are likely to be minimal. Furthermore, a younger cohort is more likely than other age groups to use BBC iPlayer to catch up, thereby lessening the ultimate value of a +1 service.

**Unconnected audiences**

8.5.13. A putative benefit of the +1 channel is more flexible viewing for those without access to BBC iPlayer. However, the new channel would not be universally available on DTT from launch. Just under a quarter (24%) of all UK television households would need to upgrade their television or set-top box in order to access it. DTT however is used by the highest proportion of DE households (34%) and those aged over 65 (29%) of all the digital platforms and internet access is lower than average for both of these groups (Figure 16). It may be that many of those who need to upgrade their equipment – our research puts this at 33% of adults in DE socioeconomic group or 41% of those aged 65+ – also belong to a household without internet access.

8.5.14. Furthermore, viewing of a +1 channel is proportionately lower among those aged over 65 and members of social grade DE. Given those aged over 65 are less likely to watch +1 channels, even if they had the means to upgrade, they may lack the incentive. Among DE households meanwhile, many of which are the most economically disadvantaged in the country, some may choose not to incur the expense (while the price of some HD boxes has fallen to below £50, as a non-essential product many of the poorest households may not upgrade unless it is absolutely necessary).

**Figure 16:** platform demographics by age, socioeconomic group and viewing

---

221 Set out by the Executive in its application and also mentioned by participants in the deliberate research conducted by the Executive, Public Value Assessment, 2015, pp.50 and 56.
223 Internet access is lower than average for those aged 65-74 (67%) and 75+ (32%) and for DE groups (67%). Ofcom, Communications Market Report, 2014, pp.264.
224 Ofcom, Technology Tracker, Q1 2014.
225 Around a fifth of each group (22% and 19% respectively) does not watch plus one television programming compared with 13% of the population in general. ICM, BBC Trust PVT Quantitative Survey, 2015, pp.32.
8.5.15. On this understanding, it seems unlikely therefore that a BBC One +1 will serve an older or poorer section of the audience. A number of stakeholders made a similar point. Many were concerned about access and the need to upgrade viewing equipment while others questioned how this would affect BBC obligations of universality. [ - REDACTED ] noted that:

*the sub-section of licence fee payers who have already switched to television equipment capable of receiving the BBC One+1 service on the DVT2 multiplex are more likely (a) to have access to iPlayer at home including on their television and (b) to have access to broadband...It is the older cohorts and those who are more marginalized who are less likely to have DVT2 compatible equipment or access to broadband or iPlayer at home. However, these cohorts already watch the BBC One main channel and have no need for a repeat service*

8.5.16. Concerns about universality can also be traced to our research, which found broad support for the idea that BBC One +1 should be available to everyone at the launch.  

8.5.17. While the proposal was generally well received by virtue of the fact that it expands the BBC’s offer at a minimal cost, it is unlikely to adequately mitigate the short-term impact of having to close BBC Three or better serve those who do not have access to broadband. Taking into account these factors, our overall conclusion therefore is one of low impact.

8.6. Value for money

8.6.1. An important driver of public value is whether the proposals secure value for money. In approaching the assessment, we had particular regard to concerns raised by stakeholders that the launch of a +1 service would divert funds from programme making into operational and distribution costs. [ - REDACTED ] in particular was critical that the Executive has minimised the overall investment by focussing on incremental costs and that the true (higher) figure did not represent value for money. We note stakeholders concerns in this respect but believe that incremental costs are the right metric to consider, as we are required to evaluate the cost of the operation against a business as usual counterfactual.

<table>
<thead>
<tr>
<th>Table 18: BBC One +1 costs (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BBC One +1</strong></td>
</tr>
<tr>
<td>Estimated annual cost</td>
</tr>
<tr>
<td>(excluding implementation and</td>
</tr>
<tr>
<td>distribution costs)</td>
</tr>
</tbody>
</table>

8.6.2. The Executive has provided the incremental cost (excluding allocation of overheads) for the implementation of the +1 channel, which relates to additional staff to monitor play-out and associated resources and licensing agreements of [ - REDACTED ] per annum. The Executive's application included an allocation of [ - REDACTED ] in distribution costs for the service. However, we have excluded these as largely, they would be incurred by the BBC irrespective of whether BBC One +1 was approved. In addition, there are some one-off implementation costs, which the Executive has estimated to be around [ - REDACTED ], which comprises [ - REDACTED ] for capital

---

expenditure necessary for distribution on all platforms and [ - REDACTED ] for play-out (as above, Table 18).

8.6.3. While we acknowledge stakeholder concerns, the proposal entails minimal investment but may positively (if minimally) impact BBC reach. We therefore consider that it represents value for money. However, this is undercut by the lack of universality from launch and only marginal gains among key audience groups.

8.7. **Concluding remarks**

8.7.1. Our overall assessment is that the proposals for BBC One +1 will deliver low to medium public value. We have reached this view by reference to the public purposes, the key drivers of public value and the strategic and financial rationale.

8.7.2. We recognise the need to deliver services in a flexible and convenient way but consider that the proposal is at odds with a broader shift online. For those who want to watch BBC One programmes after they have been broadcast, BBC iPlayer offers much greater flexibility than a +1 channel. Encouraging audiences online to catch up is an important way to stimulate the online transition and BBC One +1 pulls in a different direction. Nevertheless not everyone has internet access and BBC One +1 could help to address the imbalance, but our findings suggest that it is unlikely to better serve this group. Further, our analysis suggests that it will only minimally improve reach among a younger audience and is unlikely to mitigate the short-term impact of closing BBC Three as a linear channel.

8.7.3. The proposal does carry some public value, given evidence of public support, combined with (albeit small) potential gains in reach, the benefits of wider availability for BBC One content and minimal investment, but we consider that these points are undermined by low reach among key audience groups and a lack of national or regional opt-out programmes. Taking all four drivers into account, our conclusion therefore is that the BBC One +1 proposal offers low to medium public value.
9. Evolution of BBC iPlayer

9.1. Introduction

9.1.1. Since its launch in 2007, BBC iPlayer has grown to become the most popular television catch-up service in the UK and is credited with helping to establish the market for television catch-up services. In February 2015, it attracted 75m requests, the highest ever recorded, for the thirtieth anniversary of EastEnders. The service has evolved gradually from a predominantly catch-up service to one that offers a small amount of online-only content and provides access to live viewing on linear services.

9.1.2. Proposals for online premieres and the inclusion of selected third-party content respond to the shift towards online viewing and aim to better serve a younger (and generally hard-to-reach) audience. They date back to 2012, when the Trust approved a pilot to test the potential for online premieres across a range of genres and channels. As part of the pilot, up to 40 hours of selected programmes were available online ahead of their scheduled television transmission. Based on findings from the pilot, the Executive now wants to make premieres a permanent feature on BBC iPlayer as part of a broader strategy to reach younger adults (Table 19).

Table 19: average number of online premieres per year by channel

<table>
<thead>
<tr>
<th>Channel</th>
<th>No. of titles</th>
<th>Example programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC One, BBC Two, BBC Four</td>
<td>c. five in total across the three channels</td>
<td></td>
</tr>
<tr>
<td>CBBC and CBeebies</td>
<td>c.20 across the two channels</td>
<td>Wolfblood, Dani’s Castle Alphablocks, Woolly &amp; Tig</td>
</tr>
</tbody>
</table>

9.1.3. We can see both logic and value in developing the offer beyond its original remit in a way that will potentially enable the BBC to maintain reach among and relevance for younger audiences. Done well, it will enable the BBC to better deliver its public service mission to this group and provide a gateway to the full breadth of BBC content. In light of these strategic considerations, we have weighted the drivers of public value in the following way (Table 20). These are addressed in detail in the following section.

Table 20: weighting the drivers of public value

<table>
<thead>
<tr>
<th>Driver of public value</th>
<th>Relevant consideration for BBC iPlayer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reach</td>
<td>Important: changes are evolutionary, but should help to maintain reach and improve appeal of the core offer</td>
</tr>
<tr>
<td>Quality and distinctiveness</td>
<td>Important: the proposal should meet audience expectations of quality</td>
</tr>
<tr>
<td>Impact</td>
<td>Very Important: changes must enhance the appeal of BBC iPlayer, which provides a gateway to other BBC content</td>
</tr>
<tr>
<td>Value for money</td>
<td>Important: offer needs to deliver value for money in the</td>
</tr>
</tbody>
</table>

---

228 In the week beginning 16 February 2015. iStats, BBC Executive, BBC iPlayer Performance Pack, February 2015, pp.2.
229 The other being the launch of a branded section within BBC iPlayer for Radio One video.
9.2. Contribution to the public purposes

9.2.1. The gradual but sustained shift from live television to on-demand, which (as we have seen) is more pronounced among the young, puts focus on BBC iPlayer as a means of delivering the BBC's public service mission. In a competitive environment, this is set to become significantly more challenging as global VOD providers, from Netflix to Amazon and Apple establish a foothold. The ability to deliver a high quality and innovative service allows BBC iPlayer to keep pace with audience expectations and helps to retain reach and relevance.

9.2.2. We know that the directional trend for viewing is online and the shift is consistent and transformative. BBC iPlayer therefore makes an important (and growing) contribution to the delivery of the public purposes. In a crowded, competitive space, it is not enough to produce high-quality programmes. Audiences must be able to find content and motivated to watch it. The ability of BBC iPlayer to curate content and guide people to titles they may value but would not otherwise find is instrumental in enabling the BBC to deliver its public service remit in an online environment.230

9.2.3. Its ability to do so is reflected in the viewing figures. BBC iPlayer accounts for a higher proportion of niche content and a wider range of viewing than mainstream output. The BBC’s top 100 broadcast programmes in 2014 were, with the exception of three BBC Two broadcasts, all scheduled on BBC One and comprised five genres in total. There was more diversity however in the genres watched on BBC iPlayer. The top 100 programmes came from 6 channels and 8 different genres.231 But in order to guide audiences to content, BBC iPlayer must first attract them. It must retain its relevance and its appeal. We have already seen the importance of brand in an online world and BBC iPlayer has a strong pull. But in order to maintain its relevance, it must continue to evolve, taking full advantage of the characteristics of the internet to innovate and improve. The proposals under consideration aim to do exactly that and we agree with the Executive that they will help the BBC to deliver its mission in a challenging environment.

9.2.4. But we think the proposals bring broader benefits. While the ability to evolve BBC iPlayer is necessary and important, by enhancing a service that provides access to the full range of BBC content, the changes will help to safeguard the delivery of all of the purposes in an online world, and in particular the sixth, by broadening its appeal to all users. With regard to the specific proposals, we believe that online premieres support the third purpose and sixth purpose, while the inclusion of third-party content will advance the fourth and the second (Figure 17).

230 Via recommendations for example.
231 ISTATS, Requests for TV programmes from the BBC iPlayer, 2014.
9.3. Quality and distinctiveness

9.3.1. An important part of our assessment was whether the proposed offer was of high quality and distinctive. The BBC has a corporate objective to focus on quality and distinctiveness. As part of this, it is required to offer fresh approaches, set trends and take creative risks. We therefore had regard to the following criteria (Table 21).

Table 21: quality and distinctiveness criteria

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Requirement</th>
<th>Online Premieres</th>
<th>Third Party Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Editorial values</td>
<td>Reflects BBC values</td>
<td>✓</td>
<td>Needs to be aligned with BBC values</td>
</tr>
<tr>
<td>2. Originality</td>
<td>Fresh approach, breaks new ground, sets trends</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3. Creative ambition</td>
<td>Takes creative risks</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4. Attribution</td>
<td>Clear link to BBC brand</td>
<td>✓</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

9.3.2. We had particular regard to how the specific changes enhanced the overall quality and distinctiveness of BBC iPlayer but we also considered the general perception of the proposals. The social aspect of television can transfer to social media. Online premieres can be used to generate interest, foster conversation and build audience share. The concept of online premieres is relatively new. US networks led the way in a bid to build brands and connect with the audience and many now routinely debut shows online. The most popular programmes have significant pull. A preview of drama series *Outlander* from cable television network Starz drew nearly one million viewers.232

9.3.3. BBC iPlayer is widely regarded as the best television catch-up service in the UK and this was reflected in responses to our public consultation. While catch-up remains its core function, a small number of users is starting to use the platform to browse programmes, discover new titles and watch live television. While expectations of quality are high (and the service generally meets them) there are concerns about access and these relate in the main to broadband performance and speed.

9.3.4. Many respondents reacted positively to the proposed changes and the prospect of more choice and greater flexibility. The introduction of online premieres on a permanent basis attracted support and was seen by many (in particular those aged 16-34) as a way to increase the audience and fan base of a programme or series. There

---

was a general desire however that content would also be aired on television and a
concern that the proposal did not signal a more permanent shift online. Moreover,
some were doubtful that BBC iPlayer was an adequate substitute for television.

_ I tend to use iPlayer for catching up on programmes I’ve missed only. Unlikely to use it to watch new comedies/programmes on iPlayer for the first time_

(16-24, male)

9.3.5. Some consultation respondents meanwhile disagreed with the proposals entirely. Many prefer to watch programmes on television and this was often anchored in the
communal aspect of viewing (and most common among those aged over 45). There
were also concerns about content made available exclusively online and the risk that
this would preclude access to certain groups and precipitate a more general shift
online. We acknowledge these concerns but note that _all_ programmes would be aired
on linear television after their online premiere. In this respect, BBC iPlayer is acting as
a complement to the linear schedule and not a substitute for it. We do however accept
that third-party content would only be available on BBC iPlayer and hence limited to
those with an internet connection.

9.3.6. Some consultation respondents voiced concerns about the impact of the proposal on
the licence fee and the idea that online programmes carry less value. Several made the
point that online-only content discriminated against those without internet access
while others were concerned that the proposed changes would entail the payment of
both a television licence and an internet subscription. A number of respondents
anchored their opposition to the proposals in their concern about the closure of BBC
Three while others were simply indifferent to the changes.

9.3.7. The inclusion of third-party content however was broadly welcomed and several
respondents praised the proposal for its ambition to showcase emerging talent and
provide new artists with an established platform. Consumer expectations of quality
also extend to editorial standards and there were some concerns about whether (or
how) the BBC would moderate this content. This issue was also raised by stakeholders.
IBT cautioned that the inclusion of third-party content would dilute the BBC brand,
raise ‘issues of quality control and effective curating’ and result in a more complex and
less easy to navigate platform. The ability of the BBC to curate and moderate third-
party content is important and in the event of an approval the Executive would need to
give this area proper consideration.

9.3.8. Our overall conclusion on quality is high; the overall proposal is distinctive, with a high
level of creative ambition and originality. It breaks new ground for the BBC and, in
premiering new content online, allows the BBC to take creative risks. We have some
concerns about the moderation of third-party content which the Executive will need to
address, and about access to a reliable broadband connection which affects
perceptions of quality. We note, however, that all premiered programmes will be
broadcast on linear television, which goes some way to addressing our concerns about
universality.

9.4. **Reach among key audience groups**

9.4.1. Reach measures the number of people who access BBC content. It is a key driver of
public value and an important part of our assessment. But reach is not only concerned
with the total number of people using a BBC service, it also has a qualitative element. While the proposed changes to BBC iPlayer are likely to have a relatively modest impact on usage, they will help to maintain its reach in a competitive environment. This aspect of reach is particularly relevant to our assessment. We consider that the introduction of premieres will help to maintain reach and sustain the ability of BBC iPlayer to deliver public value. The impact of third-party content is somewhat more difficult to quantify and we agree with the Executive that it is likely to be of niche rather than mass-market interest.

9.4.2. In assessing reach, we used as our starting point the application. The Executive assessed the impact of premiering 25 titles annually, assuming 10 episodes per title, and 100k requests per episode. These assumptions imply a base total of 25m requests or just over 2m per month. The Executive also assumed that premiering could increase consumption by 150% which implies a total of 3.2m additional requests per month. Thus premiering could lead to an increase in the BBC share of viewing of 0.07% by 2017.

9.4.3. While we agree with the approach and with the 150% uplift we think that the estimate of 100k requests per episode is too low. Discussions with Ofcom allowed us to establish an alternative approach which we believe is more reliable because it takes into account:

- a longer period of time (more than three months vs one month in the Executive model)
- the extension of BBC iPlayer catch-up window from seven to 30 days
- the actual average number of requests per episode of titles mentioned in the service proposal

9.4.4. On this basis, we believe that the likely number of request per episode will be 200,000. This translates into an increase in BBC television share for 2017 of 0.20 percentage points. Using the same approach we employed to calculate reach for the launch of BBC Three as an online offer, we consider that as a minimum this will increase reach by 0.07% in 2017. While the incremental increase in usage is low, the changes will help to maintain the appeal of BBC iPlayer, relative to the counterfactual, which has a slight decline in share.

9.5. Impact on citizens and society

9.5.1. As part of our assessment, we had regard to the impact of the proposals in terms of their benefits for citizens and society. Younger viewers are proportionally more likely to use catch-up and so a well-curated selection of early releases may help to increase BBC reach among this group. Online premieres are a novel way of attracting new (and often hard-to-reach) audiences and the proposal is a practical, cost-effective way to generate interest among this group with deeper engagement and more flexible access.

9.5.2. But while a new approach to scheduling and release can be instrumental in drawing new audiences to BBC content, some caution is required. Linear viewing drives online consumption. Without strong promotion, new or niche titles may struggle to attract an audience. This concern is fortified by findings from the 2014 BBC pilot which generated mixed results. While premieres on BBC iPlayer managed in some cases to drive

---

233 For a full discussion, see our assessment of reach at annex II.
significant viewing (particularly for the most popular BBC Three comedies and CBBC content) the pilot found no strong evidence to suggest that premieres increased the total audience for a particular show. On the basis of available evidence, it seems more likely that the vast majority of BBC iPlayer viewing cannibalised first-runs or repeat viewing.

9.5.3. The mixed results were also evident in our quantitative study, which found that those in favour of proposals and those against were evenly split, while the majority of opinion was somewhat neutral. Support was considerably higher among younger people, especially students, than it was among older people and retirees. Those from ethnic minority groups were significantly more favourable to either proposal than white people reflecting the younger age profile of BAMEs. Support translated (generally) into likelihood to use and was higher among the young. Almost half (46%) of 16-24 year olds would use online premiering and 30% would be likely to use third-party content on the site. Likelihood to use was also proportionally higher among those from ethnic minorities, 50% of whom intended to use online premiering while 37% said the same about third-party content (Figure 18).

**Figure 18:** likelihood to use proposed changes to BBC iPlayer

![Bar chart showing likelihood to use proposed changes to BBC iPlayer](attachment:chart.png)

9.5.4. A significant minority underscored the need to advertise premieres on television or radio to generate awareness and militate against the risk that people are unlikely to seek out new content online unless prompted to do so. This traced to a more general perception that flicking through channels using the remote control was, for many consultation respondents, the primary means of discovering new programmes.

*If it's only online it just doesn't get the same reach as people have to physically go looking for the content. Unlike on the television where you discover it unintentionally when you're flicking through*

(25-34, male)

9.5.5. We recognise this area is new and (for the BBC) mostly untested and that likelihood to use may not initially translate into actual usage, particularly given the challenge in raising awareness of a particular title. But the findings do indicate an interest in the proposition among a younger cohort and the potential value of online debuts as a complement to linear viewing for this group. In terms of generating awareness, we

---

234 ICM, BBC Trust PVT Quantitative Survey, 2015, pp.44.
think it is reasonable to assume that, over time, young adults (who are already somewhat more likely to use BBC iPlayer to discover new programmes) will watch online premieres and that the pull of BBC iPlayer will help to build an audience.

9.5.6. The overall impact on young audiences is likely therefore to be positive, resulting in a stronger, more relevant offer that makes BBC iPlayer more appealing. The changes will give users a greater choice of content and more control over when and how they watch what the BBC has to offer. This is anchored in the Executive research, which found that the prospect of greater flexibility and choice resonated with users of BBC iPlayer. The same study found that generally the benefits of the proposals were higher when looked at from a societal perspective rather than a personal perspective, with the proposals to include selected third-party content and online premiering attracting the highest scores.

9.5.7. Turning to the impact on young viewers, online premieres may help to improve the appeal of both CBeebies and CBBC for those aged 6-12. Media technology is remoulding children’s expectations of how they access content and the proposed changes create further opportunities to watch in different and more flexible ways. Children generally have a greater enthusiasm for and reliance on technology and a growing number has access to connected devices, such as tablets. For those aged 6-11, the tablet ranks second only to the television set in terms of usage, with 60% claiming to use a tablet each week, compared with 38% of all adults. A familiarity with technology is reflected in the way this audience already uses BBC iPlayer - it accounted for almost a quarter of CBBC viewing in Q1 2015 (Table 22). Given that BBC iPlayer provides a gateway to the full range of BBC content, children who watch premieres may then go on to discover other content.

Table 22: contribution of BBC iPlayer to overall viewing

<table>
<thead>
<tr>
<th>Channel</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
<th>Q4 2014</th>
<th>Q1 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC One</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>BBC Two</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>BBC Three</td>
<td>7</td>
<td>4</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>BBC Four</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>CBBC</td>
<td>16</td>
<td>13</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>CBeebies</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>All BBC</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

9.5.8. We do have some concerns however that those without broadband access will be penalised and foresee a related risk (expressed by some respondents to our consultation) that the widespread use of online premieres could undermine the concept of universality and the importance of linear viewing. Television still plays an important role in the lives of children and is the media activity that most children in all age groups say they do almost every day, and the one that many would miss the most. Given the small scale of the proposals, we think this risk is minimal.

9.5.9. In conclusion, the overall impact while modest in the near-term is nevertheless positive and likely to result in a stronger and more relevant offer provided on more flexible

---

235 PAPA, Deliberative audience research into the proposed changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp 28.
237 BBC Trust, BBC Children’s Services Review, 2013, pp.4.
terms. We further note that the changes to BBC iPlayer complement the proposed extension of CBBC in a way that will very much benefit younger viewers.

9.6. **Value for money**

9.6.1. An important driver of public value is whether the proposals secure value for money. The proposals for BBC iPlayer carry minimal incremental costs which relate primarily to the additional rights costs associated with premiering for which the Executive has allocated [ - REDACTED ] per annum. In addition, the Executive has estimated incremental usage costs are likely to be in the region of [ - REDACTED ] per annum assuming a projected level of incremental hours of AV content consumed on BBC iPlayer of c. 62m hours in 2017/18. These are variable costs and broadly speaking depend upon the number of requests for BBC Three programmes as they reflect the volume of data which is transmitted from BBC servers over the internet when audiences click to view BBC programmes.

9.6.2. Given the potential benefits of the proposal in terms of both impact and quality and the low cost of implementation, our conclusion is that it delivers medium to high value for money.

**Table 23: BBC iPlayer costs (£m)**

<table>
<thead>
<tr>
<th>BBC iPlayer</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost (excluding implementation and distribution costs)</td>
<td>[ - REDACTED]</td>
</tr>
</tbody>
</table>

9.7. **Concluding remarks**

9.7.1. Our overall assessment is one of medium public value. The proposals represent a high-quality offer that will build on the reputation of BBC iPlayer, deliver incremental reach, and better serve a young and generally hard-to-reach audience. The overall impact while modest is nevertheless positive and worthwhile resulting in a stronger and more relevant offer on more flexible terms, delivered at minimal cost.
10. Extended hours for CBBC

10.1. Introduction

10.1.1. The Executive wants to use some of the capacity made available by the closure of BBC Three to extend the broadcast hours of CBBC by two hours, from 7pm until 9pm. The rationale put forward is twofold: the proposals support the transition of audiences from CBeebies to CBBC by offering younger viewers programmes when CBeebies closes at 7pm. Further, continuing dramas are typically scheduled between 7pm and 8pm on other channels (BBC One and ITV) and have strong appeal for 10 to 12 year olds. By focussing the second hour on this age group, the BBC would avoid scheduling against other popular shows, while still offering older viewers distinctive programming and attempting to stem the decline in their viewing.

10.1.2. We can see the value in expanding choice for younger viewers made possible by the spare capacity that results from the proposed closure of BBC Three. In the absence of new programme budget, the value that obtains may be more limited but may nevertheless help to militate against a decline in viewing. Given these considerations, our assessment weights the drivers of public value accordingly (Table 24).

Table 24: weighting the drivers of public value

<table>
<thead>
<tr>
<th>Driver of public value</th>
<th>Relevant consideration for CBBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reach</td>
<td><strong>Important</strong>: needs to improve appeal to core audience groups and in particular to children at the upper end of the age range</td>
</tr>
<tr>
<td>Quality and distinctiveness</td>
<td><strong>Important</strong>: the extended hours will provide a further opportunity for 6-12 year-olds to watch high-quality programmes shown earlier in the day. As these are repeats, quality in this respect is less relevant to our assessment</td>
</tr>
<tr>
<td>Impact</td>
<td><strong>Very Important</strong>: offer needs to help maintain BBC reach among a younger audience and deliver value by extending access to children’s programmes</td>
</tr>
<tr>
<td>Value for money</td>
<td><strong>Important</strong>: offer needs to deliver value for money in the context of financial constraints and a need for increased efficiency</td>
</tr>
</tbody>
</table>

10.1.3. As part of our assessment, we were particularly keen to establish the following and have factored it into our assessment:

- Whether extended hours will improve reach among a younger audience
- Whether it will improve the transition of younger viewers to CBBC
- Absent any additional programme budget, does it offer value to audiences in general and families in particular

---

238 BBC, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.43.
10.2. Contribution to the public purposes

10.2.1. CBBC makes an important contribution to the public purposes with a range of distinctive UK programmes and a good balance between education and entertainment.\(^{239}\) It remains one of the most watched children's channels in the UK and is firmly established in households with children, 61% of which has someone who watches the channel.\(^{240}\) But the overall pattern in viewing among those aged 6-12 is one of decline. Between 2010 and 2014, their average daily viewing minutes dropped from 10.9 to 7.1. Average weekly reach for CBBC has also fallen (Figure 19). The declines mirror a broader trend among younger viewers and can be traced to changing patterns of media consumption and greater choice generally.

Figure 19: average weekly reach for CBBC

10.2.2. The key performance challenge for CBBC therefore is to maintain its reach and relevance in an environment where the media consumption of older children is fragmented and choice abounds. We recognise the importance of an effective transition for younger viewers, as highlighted in our review of BBC children's services in 2013,\(^{241}\) and we believe that the proposal can help to support it. The Executive suggests (and we agree) that extended hours will help to sustain citizenship and civil society by providing further opportunities to schedule programmes (such as Blue Peter) when those aged 6-12 are home from school and that the provision of high-quality programmes for 10-12 year-olds in the second hour of the slot may help to militate against a general decline in their viewing.

---

\(^{239}\) BBC Trust, Review of BBC Children's Services, 2013, pp.3.
\(^{240}\) 30% of people have at least one child aged 0 to 16 in their household. 15% have one child, 11% have two children and 4% have three or more children. ICM, BBC Trust PVT Quantitative Survey, 2015, pp.50.
\(^{241}\) BBC Trust, Review of BBC Children's Services, 2013, pp.6.
10.3. Quality and distinctiveness

10.3.1. The BBC has, for several years, had a corporate objective to focus on quality and distinctiveness. As the only publicly funded broadcaster in the UK, it carries a special responsibility to be different from commercial broadcasters. Under its remit, CBBC must provide a wide range of high quality, distinctive content for 6-12 year olds, from drama, entertainment and comedy to animation, news and factual content. Research undertaken by the Trust in 2013 found that its programmes were widely regarded as being high quality and distinctive, comprising a broad range of genres.242

10.3.2. By extending the schedule by two hours and providing further opportunities to watch distinctive and high-quality programmes, the BBC is likely to deepen appreciation of the channel. We note, however, that the extended hours will be used to broadcast repeats of programmes shown earlier in the day and some stakeholders were critical of the lack of new programme investment. The Children’s Media Foundation expressed disappointment that no research had been conducted among 6-12 year olds in connection with the proposal and considered this a ‘serious omission’ and ‘indicative of an attitude at the BBC, that children and young people, while they may be audiences, are not stakeholders, to be understood and taken seriously.’

10.3.3. Viacom meanwhile struggled ‘to understand the public benefit of this proposal’ and did not see the fact that it reused spectrum freed up by the closure of BBC Three as justification in itself. But other stakeholders were supportive of increased output. Channel 4 supported the extension as an appropriate strategic decision:

Channel 4 notes the BBC’s particular expertise in original children’s programming and its success in establishing compelling content destinations for young and older children. Channel 4 believes that the BBC will continue to have a particularly important role to play in providing for this audience, given the commercial challenges around this genre, and therefore we believe that extending the hours of the CBBC channel by two hours to 9pm is an appropriate strategic decision.

10.3.4. While respondents to our public consultation were overall opposed to the changes, some were supportive and a number held CBBC in high regard. These respondents welcomed the increased choice and variety that the proposed change would bring and this reflected a general perception that CBBC programming is of high quality. One noted:

---

242 BBC Trust, Review of the BBC Children’s Services, 2013, pp.6.
There is often a lack of appropriate or interesting programmes on other channels after 7pm for my younger siblings. This is most troublesome at the weekends with them expecting to go to bed an hour later than in the week. Provided the programmes shown at this time are of good quality it will be very much welcomed by us.

(16-24, male)

10.3.5. Furthermore, some suggested that repeats were a good idea if they allowed children to see programmes originally broadcast while they were at school. We recognise that BBC Children’s needs to operate on a reduced budget, and while the proposal does not entail new investment, it does provide a further opportunity to watch high-quality programmes which may improve reach among older children whose viewing is in decline. We consider this particularly important given the significant contribution made by CBBC to the public purposes and its commitment to representing diversity and inclusion, as noted in our 2013 review of children’s services. The proposed extension will uphold the quality of the channel while helping to preserve reach among an important young audience.243

10.4. Reach among key audience groups

10.4.1. Reach measures the number of people who access BBC content. It is a key driver of public value and an important part of our assessment. But reach is not only concerned with the total number of people using a BBC service, it also has a qualitative element which enables focus on particular audience groups. As part of this assessment, we wanted in particular to establish whether extended hours for CBBC would help to mitigate against a general decline in viewing among those aged 6-12.

10.4.2. Using the share trajectory of other children’s channels the Executive forecast an increase in both CBBC viewing share (0.03%) and in BBC television reach (0.01%) by 2017. Our quantitative research however found only limited support for an extension: 65% of all adults believe that the current broadcasting hours are sufficient and this increases to 75% among those with children.244 Despite this, 39% of those with children in their household said they would be likely to use the proposed service and this rose to 53% among CBBC viewers. It can be difficult to accurately predict the usage of a new service prior to its launch. We therefore also looked at children’s viewing between 7-9pm to better understand likely demand.

10.4.3. Under proposals, the first hour will be used for programmes that appeal to 6-9 year olds while the second will be targeted at those aged 10-12. The viewing of 6-9 year-olds peaks between 7-8pm while for those aged 10-12 it is slightly later, falling between 8-9pm. However, dedicated children’s channels have earlier peaks – between 5-7pm for those aged 6-9, and 6-7pm for those aged 10-12 (Figures 21 and 22).

243 BBC Trust, Review of the BBC Children’s Services, 2013, pp.7.
244 ICM, BBC Trust PVT Quantitative Survey, 2015, pp.52.
10.4.4. This implies that children tend *not* to watch dedicated channels after 7pm but instead switch to mainstream television. Research by the BBC found that those aged 10-12 often watch soap operas (such as *EastEnders* or *Coronation Street*) on terrestrial television after 7pm. Audiences on dedicated children’s channel decrease at around this time, with the larger audiences at the younger end.\footnote{BBC Executive, ‘An Extra Hour, What Kids 4-16 Watch Between 7-9pm’, 2015, slide 7.} Findings from our public consultation point in the same direction: many respondents feel that older children have outgrown CBBC by the age of 10. Some parents stated that their children prefer to watch adult programmes instead, many of them similar in style to those currently shown on BBC Three:
In my experience as a mother and a grandmother, 12 year olds do not watch kids television - they watch American Dad, Friends or The Simpsons. (55-64, female)

10.4.5. It is reasonable to assume that children who watch mainstream channels after 7pm will continue to do so and will be less likely to switch to CBBC. Rather, extended hours are more likely to appeal to those who already watch children channels between 7-9pm. The extension of CBBC hours is therefore likely to attract a higher proportion of viewers from other dedicated children's channels, than from elsewhere. For these reasons we believe that the use of the share trajectories by the Executive may slightly overestimate the associated increment in share and reach. However because it is difficult to quantify precisely by how much the Executive overestimates the impact on reach, we believe we can use its figure as an upper bound estimate. The impact on reach therefore while minimal does help to some extent to militate against a general decline in viewing of CBBC and may in particular support the transition of younger viewers to the channel.

10.5. Impact on citizens and society

10.5.1. As part of our assessment, we wanted to understand whether the proposal was personally beneficial and delivered value to society more broadly. We found a range of views and little consensus. Consultation respondents were, on the whole, opposed to extended hours. Many objections were grounded in a general concern about the effect on established routines and a perception that younger children should be in bed by 9pm and that 7pm was therefore a suitable cut-off point. A related concern for many was the need to regulate television viewing hours to allow for other activities, such as family time, hobbies and homework.

10.5.2. Some respondents were concerned that extended broadcast hours would increase the risk of exposure to post-watershed content. However those in favour felt that it was an appropriate response to the changing viewing habits of children. One consultation respondent noted:

*The current CBBC hours are good, but an extension would be better—when children are unable to go to bed by 7pm, the option of quality children's programmes is preferable to other choices on television.*

(45-54, female)

10.5.3. Others saw value in offering programmes shown earlier in the day to school-aged children, who would not otherwise see them on television. Among some respondents, there was a general perception that older children were not in bed before 9pm and would benefit from extended broadcast hours, particularly given a lack of suitable programmes for this age group after 7pm. One consultation respondent commented:

*I know that these channels sometimes loop themselves in a day but extending the hours could give more opportunity to watch shows which have been missed during the day. Especially if children have homework and school and don't have that option to watch it earlier*

(female, 16-24)

10.5.4. But views were mixed. Some believed that older children had other alternatives after 7pm, which rendered the extension of hours unnecessary. Others suggested that
family orientated content – suitable for both children and older household members – was more appropriate to watch at this time. A number of consultation respondents meanwhile believed that existing on-demand services were sufficient for children who wanted to watch programmes after 7pm.

10.5.5. Our quantitative research found more of a split of opinion on the proposals, with 18% favourable and 24% opposed.\textsuperscript{246} Nevertheless, similar themes and issues emerged: 51% agreed that the extension could disrupt family routines, while 66% felt that the current broadcast hours were sufficient. This last view was higher among households with a CBBC viewer (78%) and those with children.\textsuperscript{247} A much smaller number (nine per cent) took the opposite view and said the channel should broadcast either earlier in the morning or later in the evening (doubling to 17% among households with a regular CBBC viewer).

10.5.6. Support for the proposal was much higher among CBBC viewers and households with children (Figure 23).\textsuperscript{248} These groups were also more likely to use the service: 39% of those with children in their households and 53% of CBBC viewers said they would be likely to do so.\textsuperscript{249}

\textbf{Figure 23:} give your general impression on the extension of CBBC hours (source: ICM)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure23.png}
\end{figure}

10.5.7. The impact on established routines however was a particular concern for women (56% compared with 46% for men) and one that increased with age: 59% of those aged 65+ mentioned compared with 46% of young people aged 16-34. An almost identical pattern emerged when considering whether 7pm was a good cut-off point.\textsuperscript{250} But there was a belief that extended hours would benefit children by providing more evening entertainment. This was more pronounced among young people (16-34, 37%; 35-44, 33%) and ethnic minorities (42%). Similarly, younger adults and those from an ethnic minority background were more likely than average (and older people and white people in particular) to hold the view that it was good that children could

\textsuperscript{246} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.5.
\textsuperscript{247} We note that a larger portion of the audience overall (25%) did not know whether the current hours were sufficient, compared with only 10% of those with children and 5% of those with someone in the household who watched the channel. This may explain the overall difference between the two groups.
\textsuperscript{248} Four in ten (39%) people with a child in their household and three in ten (31%) CBBC viewers rate proposal at least 8 out of 10, where 10 is extremely favourable. ICM, BBC Trust PVT Quantitative Survey, 2015, pp.52.
\textsuperscript{249} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.54.
\textsuperscript{250} ICM, BBC Trust PVT Quantitative Survey, 2015, pp.56.
catch up on programmes they may have missed earlier in the day. Across all groups, however, the overwhelming impression was one of indifference (Figure 23).

10.5.8. Our findings concur with research conducted for the Executive, which found that reactions to the proposal partly depended upon whether those questioned had children.\(^{251}\) While almost all participants valued BBC children’s programmes, there was a range of views on the benefit of extended hours. In terms of personal value, parents were generally more positive about the proposals than those who did not have children.\(^{252}\) For some there was a general sense that it would make life easier. Some parents felt the extra hours would give them more options to manage the last few hours before bedtime and a few working parents suggested an extended schedule was a better fit for many modern families who might have children in childcare until 6pm or later. Others felt that having CBBC available in the evening would give parents a safe option for their children to watch television while others thought the proposal might make life harder, placing additional strain at bedtime and disrupting family time.\(^{253}\)

10.5.9. As with other elements of the package, many viewed the proposed changes in the context of the closure of BBC Three as a linear channel. While some were not opposed to extended hours per se, they did not believe it should come at the expense of BBC Three. But the proposal drew support from other quarters. [ - REDACTED ] supported the proposed extension as a positive development that would ‘help sustain and grow the audience for original UK programming for children.’ Virgin Media meanwhile was ‘delighted to support’ the proposal, as representing ‘exactly the type of content the BBC should be producing and distributing widely.’

10.5.10. While consultation respondents were, on the whole, opposed to extended hours, and public opinion is split, we note that households with children and regular CBBC viewers are more supportive and these are key groups. While the impact of extended hours may be limited, it is also likely to be beneficial for the core audience and may help to mitigate against a general decline in their viewing.

10.6. Value for money

10.6.1. An important driver of public value is whether the proposals secure value for money. The proposals for CBBC can be achieved without incurring any additional cost. As the content offer consists of repeats shown earlier in the day there are no additional content or content-related costs associated with the proposal. There will be minimal one-off implementation costs of [ - REDACTED ] to effect a change in the transmission hours of CBBC/CBBC HD on all platforms but no on-going incremental distribution costs in so far as capacity becomes available following the closure of BBC Three as a broadcast channel. Our overall view, given the low cost of implementation compared with the potential benefits for the core audience is that the proposal delivers medium to high value for money.

\(^{251}\) PAPA, Deliberative audience research into the proposed changes to BBC Three, BBC iPlayer, CBBC and BBC One + 1, 2014, pp58.
\(^{252}\) Ibid. pp. 56.
\(^{253}\) Ibid, pp. 56.
Table 25: CBBC costs (£m)

<table>
<thead>
<tr>
<th>CBBC</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost (excluding implementation and distribution costs)</td>
<td>0</td>
</tr>
</tbody>
</table>

10.7. Concluding remarks

10.7.1. While the gains in reach are modest, we believe that the impact of the two additional hours is likely to be positive. While limited to some degree by the lack of new content investment, the proposal nevertheless may help to sustain viewing, by offering children greater choice at a time when they are more likely to be watching. Extended hours may also help to support the transition of younger viewers to CBBC and will maximise the availability of content.

10.7.2. We do however share stakeholder concerns about the impact of an extension on the watershed and the Executive should consider this area further in the event of an approval. In concluding, while incremental reach is likely to be low, the proposal may help to combat overall decline and can be implemented at minimal cost. Our overall view is therefore one of medium public value.
11. Investment in drama

11.1.1. The Executive plans to strengthen drama on BBC One with an additional investment of £30m, part funded by cost savings that result from the closure of BBC Three as a broadcast channel. While the investment is not subject to Trust approval, it is linked to the package of proposals and the Executive has confirmed a financial dependency on the closure of the linear channel.

11.1.2. The Trust recognises the importance of drama on BBC One and has set certain priorities for the Executive in this area. In our strategic review of 2013, we acknowledged that BBC One remained the UK’s most watched channel and contributed more to overall reach than any other BBC service, and that it should therefore:

showcase distinctive types of high quality content that audiences expect from the BBC. The new drama The Village demonstrated considerable and welcome ambition. We believe BBC One has scope for more of this kind of ambitious programming.

11.1.3. In 2014, we identified drama on BBC One as a priority area for immediate action, and specifically required the Executive, ‘to improve the quality, variety and originality of new drama on BBC One particularly in peak time.’ The proposed investment in drama is therefore consistent with the strategic direction that we set for the Executive. While we are not approving this element of the package, we do have regard to value for money in the context of the overall package and a general duty to safeguard the licence fee.

11.1.4. However, we note that a number of stakeholders suggested that this was a poor use of the reinvestment. VLV in particular was critical of the decision to make further investment in drama when other areas of the BBC were subject to cuts:

We do not believe the BBC should be putting any more funding into BBC One or trying to increase its reach when it is already dominant in the market place and is the best funded by far of all the BBC channels.

11.1.5. Equally [ - REDACTED ] gave the view that there should be a very high bar set by the Trust for closing a service targeted at innovative content for a young audience, in circumstances where it would use the savings to invest in drama, where the BBC is already the largest investor in this area.

11.1.6. We note, however, that the Executive plans to use the additional funding in programmes that appeal broadly, but with particular resonance for younger audiences in line with its commissioning approach to date. It points to programmes such as Call the Midwife, which attract a youth audiences while having broad appeal. In our view, this strategy may therefore help to address these concerns. This view is also supported by other stakeholder responses. Equity tentatively welcomed the increased spend noting that:

---

256 Provided to the Trust on 30 April and 18 May 2015, in connection with this assessment.
It is vitally important that this funding supports young and emerging talent, including writers, directors and performers, as well as helping support the UK’s creative industries across the country.

11.1.7. While the investment is not subject to our approval, we consider that there is value in the proposed investment, particularly if it is used to commission shows that resonate with young viewers. We also support the overall strategic purpose of investing in improving the quality, variety and originality of BBC drama.
12. The counterfactual

12.1. Introduction

12.1.1. In assessing public value, we had regard to the counterfactual and what might obtain in the event that the proposals are not implemented. The Executive based its counterfactual analysis on the following assumptions:

- BBC Three continues as a linear channel and its share remains stable at 1.5%
- The increment in investment of £30m in BBC One results in a pro rata increase in viewing on a linear/PVR and catch-up basis with a base case share of 21.7%
- There is a contraction of CBBC share, dropping from 0.5-0.6% to 0.4%
- BBC share online drops from 42% to 40% by 2018

12.1.2. Our counterfactual is prepared on a slightly different and in our view more accurate basis to the extent that it excludes the investment in drama, which while not requiring Trust approval it is nevertheless dependent on the closure of BBC Three.

12.1.3. We have assumed that the affected BBC services continue to operate under the terms of their existing licences, with some marginal changes to share. In line with the Executive we forecast that BBC Three will remain stable and that the share for BBC One will also remain constant absent any uplift from the investment in drama. Given a significant contraction in CBBC share, we have assumed that this trend will continue and will stabilise at around 0.4%, in line with the Executive projections. While it is difficult to predict BBC online share, meanwhile, given this is an area of growth, we believe the Executive’s prediction is reasonable. Over time, the net effect on the audience is for BBC share to remain constant with a slight increase in total viewing hours.

12.2. BBC Three

12.2.1. In arriving at our projections, we had regard to the fact that overall performance is under pressure and viewing share has been broadly flat for 10 years. BBC Three faces heavy competition from commercial rivals for an audience that the BBC has traditionally had difficulty in attracting. Performance is in decline and it is most pronounced among key sections of the audience - lower income households, younger viewers and black, Asian and minority ethnic groups.

12.2.2. Following discussions with the Executive, we have assumed that the budget for BBC Three remains constant in nominal terms to 2018. Further, we have assumed a broadly similar content mix. While we are aware that the BBC will no longer have the rights to new seasons of *Family Guy* and *American Dad* going forward, trying to adjust for the effect of these changes on viewing share is difficult and prone to error. Our counterfactual does not therefore reflect the loss of these programmes from the BBC Three schedule.

---

257 Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment of Revised BBC Services, 2015, pp.20-22.
258 Which accounted for a combined 27.3% of BBC Three viewing hours in 2014. BARB, 2014.
12.2.3. Taking account of these factors, we have assumed that viewing share remains stable at the 2014 level. This translates to a share of viewing of 1.38% in the counterfactual (and compares with Communications Chambers figure of 1.48%).

12.3. **BBC iPlayer**

12.3.1. Predicting the viewing share of catch-up services is inherently difficult and prone to error given the market has yet to arrive at a steady state. Under the counterfactual, we have assumed that BBC iPlayer continues as (primarily) a catch-up service, under the terms of its service licence, with incremental improvement, but absent the introduction of online premieres and the inclusion of third-party content. Communications Chambers forecast a small decline in the viewing share of hours from 43% in 2013 to 39% in 2018 and we consider that the forecast is reasonable.

12.4. **CBBC**

12.4.1. Communications Chambers assumed that the viewing share for CBBC drops from 0.6% in 2013 to 0.4% in 2014 and then remains constant at that level to 2018. This is supported by BARB data for 2014 which reveal a fall from 0.6% in 2013 to 0.5% in 2014. We consider that the forecasts from Communications Chambers are reasonable and assume that CBBC viewing share will drop to 0.4% in 2015 and then remain constant thereafter.

12.5. **Concluding remarks**

12.5.1. The Executive concludes that the cumulative impact of the proposals (including BBC One +1) is unlikely to affect the overall time spent by audiences watching BBC services, because the reductions in linear viewing resulting from the closure of BBC Three as a broadcast channel will largely be offset by the other changes, and we agree with this analysis.

12.5.2. Our own findings suggest that the proposals taken as a whole will result in a reduction of between 0.8% and 1% in BBC reach among the entire UK population and a reduction of between 2.7% and 3.2% among those aged 16-34. Furthermore, looking at recent trends, even if the proposals were not implemented, there may be a decline in BBC Three reach among young adults, but it would most likely be steady and gradual.
13. Overall Conclusions

13.1.1. A key question for our assessment of public value was whether the package of proposals was a credible response to the challenge facing the BBC.\(^{259}\) We also wanted to understand how it would impact an important but under-served audience and what considerations it raised in respect of our equality and diversity duties.

13.1.2. The BBC has to balance the need to make savings with an equally important need to ensure cuts do not erode the quality of core services or sever its connection with young adults. Intuitively, the proposals for BBC Three have force. But if the idea appeals, it leads quickly to a debate on the continued importance of television, on access to broadband and whether there is an issue of universality.

13.1.3. The decision to move BBC Three online is a future-facing move that few commercial broadcasters would consider at this point in time.\(^{260}\) It is moreover the first time in its history that the BBC has proposed the closure of a television service. While closure is motivated by financial constraints it is also in response to a structural shift in viewing patterns. The BBC has a duty to serve all audiences and reach among young adults is in decline. The trend in viewing has been towards a shift online with young adults at the vanguard. This group has a high level of internet access and is far more likely than other age groups to use online video services and to do so on a regular basis. Online content plays a central role in their daily lives and many have not experienced a world without the internet.

13.1.4. The BBC therefore needs to modernise its portfolio and reconnect with a young audience. The proposal aims to increase the distinctiveness and quality of BBC Three content by reducing the emphasis on lighter features and formats, increasing the focus on factual and comedy and experimenting with new forms of content. The scale of the proposed investment is likely to mean that the BBC will bring high-quality production values to an online environment. Further, and importantly, BBC Three Online will act as a gateway to the full range of BBC content and help improve its connection with an important but under-served audience.

13.1.5. Taken as an overall package, however, the gains and losses are unevenly distributed. While the proposals in aggregate will cause only a modest reduction of BBC television reach, the effects of the closure of BBC Three on those aged under 24, black audiences and young C2DE adults are more pronounced. We are particularly concerned about access for those without a reliable internet connection, which will inevitably effect perceptions of quality but also raises an issue of universality. We accept that there are always likely to be variations in reach among different audience groups. Nevertheless, the universal licence fee means that the BBC aims to serve all audiences and an online only offer represents a barrier to use, in particular for groups that the BBC has the most difficulty in reaching (such as young C2DE adults and BAME groups).

13.1.6. Further, while we recognise that the BBC has a proven record in developing digital offers, the production of high-quality output relies on access to producers, writers and

\(^{259}\) These being a structural shift in media consumption, disruptive new business models and falling income.

\(^{260}\) BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.22.
actors and a number of stakeholders assert that this is an area of risk. The historical success of BBC Three rests on its ability to innovate and develop talent, particularly in comedy, and the closure of the linear channel may result in less exposure to new shows and (as some stakeholders assert) make it difficult for the BBC to attract and nurture talent.

13.1.7. Our overall assessment therefore is that the proposals for BBC Three will deliver low to medium public value. We consider however that low reach can be mitigated and greater value unlocked provided that the three barriers to use that we identified in our assessment (awareness, acceptability and accessibility) are properly addressed. Further consideration should also be given as to risk that, in closing the linear channel, the BBC loses a valuable nursery slope for new talent.

13.1.8. We also note that the closure of BBC Three as a broadcast channel and its reinvention online generates a net saving of £30m per annum, which will be reinvested in other areas that will generate public value. The proposals to extend the broadcasting hours for CBBC provide greater flexibility and a transition path for young viewers, while the evolution of BBC iPlayer enhances the current offer with greater choice and more content. We also consider that the proposal for BBC One +1 generates low to medium public value. However, it involves some difficult compromises, and our analysis suggests it would only minimally improve reach among a younger audience and those without broadband access and is unlikely to provide sufficient mitigation for the loss of BBC Three as a linear channel.
Annex I, description of proposals

Introduction

The Executive is seeking permission for changes to the UK public services, comprising:

- a. the closure of BBC Three as a broadcast channel in the autumn of 2015
- b. the reinvention of BBC Three as an online-only offer
- c. the evolution of BBC iPlayer from primarily a catch-up service to one that offers online-first BBC content and selected third-party content
- d. the launch of a +1 channel for BBC One
- e. extended hours for CBBC
- f. increased investment in drama on BBC One

Closure of BBC Three and its reinvention online

Launched in 2003, BBC Three broadcasts every day from 7pm until 4am and is available on digital cable, terrestrial, IPTV and satellite platforms (from Freeview and YouView to Virgin Media, Sky and Freesat). The channel, which is aimed at the 16-34 audience, provides a mixed schedule encompassing hourly news coverage, current affairs, drama, entertainment, music, arts, animation and factual programming.

In common with other BBC television services, the content budget for BBC Three has been reduced, with a corresponding reduction in the hours of originations shown on the channel. Between 2010 and 2013 original productions (as percentage of all hours) fell from 83% to 76%. Funding for BBC Three drama has been reduced to one original series each year and funding for factual and entertainment programmes before 9pm has also been cut. In the absence of the proposed changes, the BBC plans to further reduce the budget to BBC Three to the year 2016/17. At the same time, the performance of BBC Three has also suffered (between 2010/11 and 2013/14, weekly average reach fell from 22.7 to 20.5) primarily due to external factors such as the shift in the viewing habits of younger audiences. In response, the Executive is seeking permission to close the linear channel in the autumn of 2015 and create in its place an online-only offer, targeted at 16-34-year-olds.

Content budget

The content budget for the new service will be c. £30m in 2016/17 (excluding news and sport and other content-related costs). In the first year, around 80% of the budget will be used to commission long-form programming, such as Life and Death Row and Cuckoo. The remaining

---

261 In 2010/11, the total content budget (including news and sport and other content-related costs) for BBC Three was £84.7m. This fell to £81m in 2013/14. BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.9.

262 The Executive wishes to propose a lowering of the quota for original productions to 60% (from the current level of 70%) which will apply to BBC Three as a broadcast channel for 2015 until its closure (assuming that is approved). The Executive will discuss this with the Trust in due course as part of the transitional arrangements.


264 This compares with £58m (excluding news, sport and other content-related costs) to run the service in 2013/14 and a forecast c. £60m television content budget (excluding news, sport and other content-related costs) for 2016/17 for BBC Three.
20% will be devoted to short and new-form content. The Executive plans to reallocate the level of investment in different genres as below (Table a).

**Table (a): proposed levels of investment in different genres**

<table>
<thead>
<tr>
<th>Genre</th>
<th>Example programme</th>
<th>Proposed approximate budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drama</td>
<td>Being Human</td>
<td>Broadly maintained at current level</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Factual and music events</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Personality-led entertainment</td>
<td>Jack Whitehall and his Dad</td>
<td>Half the current level</td>
</tr>
<tr>
<td>Features and formats</td>
<td>Reality television shows</td>
<td>Discontinued</td>
</tr>
<tr>
<td>Scripted comedy</td>
<td>Cuckoo</td>
<td>One quarter less than current level</td>
</tr>
<tr>
<td>Serious factual</td>
<td>Our War, Murdered by My Boyfriend</td>
<td>Double the current level</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>Significantly reduced</td>
</tr>
</tbody>
</table>

**Content offer**

The content offer will reflect two editorial pillars: ‘Make Me Laugh’ and ‘Make Me Think’ (Table b).

**Table (b): indicative content offer**

<table>
<thead>
<tr>
<th>Editorial pillar</th>
<th>Content genre and type</th>
<th>Example programmes²⁶⁶</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make Me Laugh</td>
<td>• Scripted comedy, commissioned and acquired, long, short and new-form</td>
<td>Bad Education, Cuckoo, The Call Centre</td>
</tr>
<tr>
<td></td>
<td>• Personality-led entertainment, long and short and new-form</td>
<td></td>
</tr>
<tr>
<td>Make Me Think</td>
<td>• Drama, long and short-form</td>
<td>Being Human</td>
</tr>
<tr>
<td></td>
<td>• Flagship factual programmes</td>
<td>Life and Death Row</td>
</tr>
<tr>
<td></td>
<td>• Authored documentaries</td>
<td>Our War</td>
</tr>
<tr>
<td></td>
<td>• Current affairs, short and new-form</td>
<td>World’s Worst Place to be Gay Newsbeat</td>
</tr>
<tr>
<td>Make Me Laugh and Make Me Think</td>
<td>• Humorous factual</td>
<td>The Call Centre</td>
</tr>
<tr>
<td></td>
<td>• News bulletins</td>
<td>Newsbeat</td>
</tr>
</tbody>
</table>

Audiences will be encouraged to comment on programmes and exchange views, using interactive features and social media networks, such as Facebook or YouTube. The content offer will be supplemented by blogs, behind the scenes information, and Q&A material.

**Make Me Laugh**

Make Me Laugh will feature scripted comedy such as commissioned series (covering young people’s lives, satire, spoof and situation comedy, etc.) and personality-led pieces. While the BBC will continue to acquire series, the focus will be on BBC originated comedy.

²⁶⁵ Short-form content can be defined as short audio visual programmes (e.g. BBC Three comedy feeds or BBC drama shorts) which have a narrative arc. New-form content includes but is not limited to text-based content (articles, blogs, and tweets), images, video clips, animation and interactive content (that allows, for example, users to comment or vote on content). BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.10.

²⁶⁶ These serve only as examples of the type of programmes that could be broadcast but do not necessarily represent definitive titles.
BBC Three is likely to commission scripted comedy titles, scripted specials and comedy feeds. The bulk of personality-led pieces will be short-form and new-form content\(^{267}\) (in the first year, on average one piece a day), supplemented by long-form comedy series.

**Make me Think**

Current affairs programmes and documentaries will be available on a daily, weekly and monthly basis, while new-form content will be published daily. Over the course of a year, there will be flagship factual series, as well as series and singles for seasons and one-off events. The editorial focus for flagship factual will be on ‘agenda-setting’ seasons (for example, mental health issues affecting young people in Britain today). Authored documentaries will also play a prominent role in the content mix. Overall, the Executive plans to increase investment in serious factual programming from current levels and discontinue existing features and formats.

**Collaboration with other BBC services**

BBC Three will offer its audiences news and sport in collaboration with other parts of the BBC where editorially relevant (the example given by the Executive is Newsbeat, the flagship news programme on Radio 1).

It will also collaborate with other BBC services to provide an editorial perspective on sport or entertainment, with a selection of shared editorial calendar moments, such as major sporting events and festivals. BBC Three will use productions from BBC Sport to provide an alternative analysis or background story (e.g., Radio 1 Scott Mills’ commentary on the World Cup). It hopes to work closely with CBBC and CBeebies on such issues as parenting and with Radio 1 to develop new talent, cross-commission and collaborate on the production of short-form content.

**Existing acquisitions**

Some popular programmes which are currently shown on BBC Three (but are not available on BBC iPlayer) will remain on other BBC television channels for the time being. Selected acquired titles will move to BBC Three online, subject to ongoing editorial decisions and wider business considerations.

**Release schedule**

BBC Three online will provide a curated offer with the following indicative schedule:

- **daily**: originated new-form which will include a mix of current affairs, personality-led entertainment, Newsbeat bulletins, BBC Radio and BBC Sport collaborations covering major sporting events like the World Cup e.g. *World Cup's Dirtiest Tackles*. The Executive plans to publish over 100 pieces of different short and new-form content a month

- **weekly or monthly**: originated scripted comedy and factual series or singles as well as acquired scripted comedy and drama

- **ad hoc**: the release of BBC Three archive content (i.e. content beyond the initial catch-up window) depending upon factors such as cost and audience expectations

---

\(^{267}\) New-form content includes but is not limited to text-based content (articles, blogs, and tweets), images, video clips, animation and interactive content (that allows users to vote or comment on content, for example).
The exact volume of content released is likely to vary from month to month and the Executive would like the flexibility to evolve the service over time. However, as a guide, it has provided the approximate overall mix of content available on a monthly basis, set out in Table c below.

Table (c): overall mix of content available on a monthly basis

<table>
<thead>
<tr>
<th>Content type</th>
<th>Example programmes</th>
<th>Availability on monthly basis</th>
</tr>
</thead>
</table>
| Originated BBC content     | Make Me Laugh: long-form and short-form scripted comedy and comedy entertainment, supporting content (articles, blogs, images), daily personality-led short and new-form content Make Me Think: long-form and short-form flagship factual and authored documentaries, supporting content (articles, blogs images), daily current affairs (short and new-form) | • c. five hours of long-form  
• c.100 pieces of new-form (three a day) |
| Originated and shared      | Make Me Laugh and Make Me Think: short and new-form content covering sports, daily Newsbeat bulletins and shared Radio 1 footage | • c.34 pieces |
| Catch-up and archive       | Long-form programming covering Make Me Laugh and Make Me Think: catch-up series previously released and BBC Three archived series | • c.30 hours |
| Acquired                   | Long-form comedy and drama covering Make Me Laugh and Make Me Think                 | • c. three hours |

Content window

BBC Three programmes are currently available for 30 days online after every transmission (first-runs and repeats) on the linear channel.\(^{268}\)

*Long-form programmes*

Under the proposals, all BBC Three long-form programmes would:

- be available online for up to 24 x 30 days over a five-year period\(^{269}\)

---

\(^{268}\) Due to the fact that scheduling patterns vary from programme to programme, the length of time an individual programme is available on BBC iPlayer varies. BBC Three programmes are often repeated several times and are therefore available for more than 30 days in this way.

\(^{269}\) The Executive anticipates that long-form programmes will continue to be made available in blocks of 30 day periods, mirroring the availability of long-form programmes on BBC television channels where programmes have an initial showing and a certain number of repeats. Under these proposals, the BBC may host seasons such as ‘binge weekends’ similar to the Netflix model. BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.13.
premiere online and (at a later date) air on BBC One (potentially in a branded BBC Three time zone after the 10 o’clock news) or BBC Two (again late at night), at least in the early years of the service.

For some selected titles the BBC may seek even greater online availability, mirroring its ability to purchase additional rights to enable further repeats for linear transmissions.

Appropriate technological means will be used to limit BBC Three long-form programmes to both the window of availability and the UK territory.

**Short and new-form content**

Under the proposals, most short and new-form content would be available for longer than the window envisaged for long-form programmes (as standard).  

**Content availability**

**Access to BBC Three content from other BBC services**

The BBC Three content offer would be available on a range of BBC services – on a dedicated website on bbc.co.uk, on programme pages on BBC Online, on BBC iPlayer and, subject to technical considerations, potentially on Connected Red Button. Some programmes would also be shown on BBC One and BBC Two. The dedicated website (Figure a) will provide a gateway to:

- the BBC Three ‘daily stream’ of topical, shareable short and new-form content aimed at making BBC Three audiences laugh and think
- a curated stream of BBC Three content available on a continuous loop
- the latest releases of long-form programmes available on BBC iPlayer
- other BBC content

**Figure (a): BBC Three dedicated website**

---

270 Given the experimental nature of BBC Three online, The Executive has proposed reviewing arrangements after two years.

271 BBC Three content will be available on BBC iPlayer, which is accessible through Connected Red Button. There are no current plans by the Executive to build a separate BBC Three environment within Connected Red Button (as per news, sport and weather) although it may wish to do this at some future point, as per its application.
Access to BBC Three content from television platforms

Consistent with the on-demand syndication policy, BBC Three content will be available on third-party platforms and services. The BBC operates a standardised model with television partners272 whereby its linear and on-demand content is made available by means of the standard BBC iPlayer product. BBC Three content would therefore be available on all devices supporting BBC iPlayer.273

The BBC will also work with television platform providers such as Sky, Virgin Media, YouView, Freesat and Freeview to provide access to BBC Three content in other ways via their interfaces (by for example the use of Red Button).

Access to BBC Three from video-sharing and social media platforms

BBC Three content will also be available on video-sharing and social media platforms such as YouTube, Facebook and Twitter. Each platform would have a specific role and certain content may be unique to a particular platform.274 For example:275

- YouTube could be used to promote a single editorial pillar (such as short-form comedy) and to show first episodes simultaneously with BBC Online
- Facebook could be used to engage audiences and allow them to comment and vote on content
- Twitter could be used to promote forthcoming events or programmes, share plotlines and enable audience involvement in storylines, using (for example) fictional Twitter accounts for immersive storytelling (Figure b)
- Instagram could be used to provide ‘behind the scenes’ information and as a ‘narrative tool’ to create and develop stories.

Figure (b): indicative use of Twitter to promote events or programmes on BBC Three
Evolution of BBC iPlayer

While BBC iPlayer is primarily a television catch-up and simulcast service, it also provides access to a small amount of non-broadcast audio and video content. The Executive would like to increase the amount of non-broadcast (online-only) content in BBC iPlayer (as part of its proposals for BBC Three) and, as part of a wider strategy, improve the curation, prominence and availability of its content.

In addition to its plans for BBC Three (which will increase the amount of online-only content) the Executive plans to evolve BBC iPlayer in two specific ways:

- to premiere some programmes on BBC iPlayer (before they are broadcast on a linear service)
- to include selected content commissioned by third parties

While BBC iPlayer will remain, primarily, a catch-up service, and broadcast content will continue to make up the overwhelming majority of its inventory, the proposed change represents a shift in the nature of the service.

Online premieres

Over the last year, the BBC has conducted a premiering trial which enabled up to 40 hours of programmes to be shown on BBC iPlayer prior to broadcast on BBC television. On the basis of its findings, the BBC would like to make online premieres available across its television portfolio permanently to the effect set out in Table d.

Table (d): summary of the proposal, average number of online premieres per year by channel

<table>
<thead>
<tr>
<th>Channel</th>
<th>No. of titles</th>
<th>Example programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC One, BBC Two, BBC Four</td>
<td>c. five in total across the three channels</td>
<td>Wolfblood, Dani’s Castle, Alphablocks, Woolly &amp; Tig</td>
</tr>
<tr>
<td>CBBC and CBeebies</td>
<td>c.20 across the two channels</td>
<td></td>
</tr>
</tbody>
</table>

Under the proposals, the BBC would premiere a small number of programmes from BBC One, BBC Two and BBC Four, mostly to introduce new talent and to enhance the schedule (by offering, for example, 10.35pm drama at the earlier time of 9pm on BBC iPlayer). This would amount to around five titles per year across the three channels. Assuming 10 episodes per title, with durations of between 30 and 60 minutes, this would result in an additional 25 to 50 hours’ worth of programming available online in advance of linear transmission.

Following premieres of *Hank Zipzer* and *4 O’Clock Club* (under the trial permissions), the Executive would like to premiere more titles from CBBC and CBeebies on BBC iPlayer. Depending on the commissioning slate (i.e. some series would be more suitable for online premiering than others) and the performance of subsequent premieres, it anticipates that CBBC and CBeebies combined could premiere around 20 titles a year by FY2016/17.

The BBC would premiere the following types of programmes for CBBC:

---

276 BBC Online Service Licence, 2014, pp.1.
277 This could either be through BBC iPlayer specific commissions (although no additional budget has been assigned for this purpose) or by incorporating video content from elsewhere on BBC Online, such as the recent inclusion of Radio 1 video on BBC iPlayer.
• Drama aimed at 10-12 year olds which could also repeat in the 8-9pm hour (in accordance with the proposal to extend CBBC hours until 9pm). Examples of this kind of drama include Wolfblood, Dani’s Castle and Millie In Between
• Comedies such as Class Dismissed

It is unlikely that returning series with an established audience would be premiered.

Under the proposals for CBeebies, the BBC would premiere different formats, with a particular focus on titles which are shorter in duration and those where the BBC wants to build a television audience. For example:

• Programmes with a learning angle such as Alphablocks and The Lingo Show
• Short (five minute) versions of programmes such as Woolly & Tig, Something Special and Swashbuckle
• Programmes which deal with problem-solving, such as Bing, Tee and Mo

For certain dramas such as Katie Morag, Topsy and Tim and Jamilla, where a premiere on the television channel encourages shared family viewing, the BBC is unlikely to premiere online.

**Premiere window**

The exact length of the premiere window will vary depending on what the BBC is hoping to achieve (i.e. to raise awareness, generate interest or reach a new audience). In most cases, programmes would not premiere more than seven days in advance of linear transmission.

**Content that will not premiere online**

There are certain types of programmes that BBC Television does not plan to premiere online:

• programmes that may contain spoilers that the BBC would not wish to appear on social media sites, potentially including the majority of drama programmes
• any programmes where the BBC wanted to maximise the sense of a shared viewing experience, for example, entertainment programmes such as The Apprentice or The Voice
• programmes for which the BBC does not hold the rights to show on BBC iPlayer – either at all or in advance of a channel transmission (e.g. some acquired programming)

**Proportion of non-broadcast video content on iPlayer**

A very small proportion of video content on BBC iPlayer is non-broadcast. Over the course of the financial year 2014/15 an estimated 0.5% of hours of content published will be non-broadcast.

**Inclusion of third-party content**

Currently only content that is commissioned or acquired by the BBC is hosted on BBC Online although programmes from S4C, the Welsh language public service television channel, have been available on BBC iPlayer since November 2014 on an experimental basis, as agreed by the Trust (Figure 4).

Under proposals, the BBC may engage in similar partnerships with institutions that share its values (as opportunities arise) to make available third-party commissions within BBC iPlayer. The example given by the Executive is The Space, an online gallery set up by the BBC and the Arts Council of England where digital artists can showcase their work.
In developing proposals as to how content would be selected or integrated, the Executive would have regard to the following principles:

- third parties would be limited to not-for-profit cultural and arts organisations, such as the Arts Council
- proposals would need to demonstrate that they support the BBC’s public purposes
- proposals would need to be consistent with and help to support the BBC’s strategic objectives. For example, the inclusion of third-party content could help develop digital capability in organisations, thus supporting BBC ambitions to support the wider creative economy.

Furthermore any proposals would be subject to internal regulatory scrutiny and would need to comply with the BBC Fair Trading Guidelines. In addition, third-party content would need to comply with the BBC Editorial Guidelines.

**Launch of BBC One+1**

The Executive would like to launch a +1 channel for BBC One. The new service, BBC One+1, would broadcast 24 hours a day, seven days a week in standard definition. The service would show BBC One programmes one hour later than BBC One except that when BBC One shows programmes for the nations and regions, BBC One+1 would instead carry the BBC News channel.

**Availability**

BBC One+1 would be broadcast on all television platforms: DTT (Freeview, YouView) cable (Virgin) and satellite (Sky, Freesat). However, on DTT from launch, BBC One+1 would only be available to households with a YouView or Freeview HD television or set-top box. This is because the service on DTT would be broadcast on the PSB-3 multiplex and households would need a YouView or Freeview HD television or set-top box in order to receive it.

The Executive would like to make the service available to all Freeview households in due course but this will depend on technological developments.

**Finding BBC One+1 on digital television**

The ease with which viewers can find the BBC One+1 service will depend in part on the position it is given on the electronic programme guide (or EPG). The Executive currently does not know which EPG position a BBC One+1 channel would occupy on each platform (Sky, Freeview etc.). It would like BBC One+1 to be available in a prominent position that makes it easy to find, but the outcome will depend on the listing policies of each particular platform.

---

278 The BBC uses two multiplexes, PSB-1 and PSB-3, to broadcast its television channels. All Freeview homes are able to receive television services broadcast on PSB-1. However, because PSB-3 uses a more advanced technology (known as DVB-T2) only homes with a YouView or Freeview HD television or set-top box can receive its services. However, space on PSB-1 is limited and PSB-3 is currently the only multiplex with enough capacity to accommodate a 24/7 channel. BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.18.

279 At the moment space on the BBC A multiplex (which is available to all Freeview homes) is limited and it will require further developments in compression before it has the capacity to carry another service. These developments are outside the BBC’s control but it plans to continue to work with suppliers to monitor and influence technology improvements. BBC Trust, Service Description of Proposed Changes to BBC Three, BBC iPlayer, BBC One and CBBC, 2015, pp.18.

280 Which is used to choose and access programmes on digital television.
Extension of hours for CBBC

CBBC currently broadcasts from 7am to 7pm every day of the week. As defined in its service licence it broadcasts a ‘wide range of high quality, distinctive content for 6-12 year olds, including drama, entertainment, comedy, animation, news and factual.’ It is available on DTT, cable and satellite and via BBC iPlayer, in both SD and HD on every platform. CBBC shares capacity with BBC Three (and this is the case for both SD and HD variants on all platforms).

Under the proposals, the Executive wants to use the capacity made available by the closure of BBC Three to extend the broadcast hours for CBBC by two hours, from 7pm to 9pm. It hopes that the extension will enable the BBC to better meet the viewing needs of the audience. Television reach for 6 to 12 year old audience peaks between 7pm and 9pm after CBBC closes.281

Under the proposals, the first hour would be used for programmes with appeal for 6 to 9 year olds, and the second hour for programmes which appeal to the older 10 to 12 year old audience. The Executive is not proposing an increase to the current content budget for CBBC. During the extended two hours, the schedule would run repeats of such programmes as Wolfblood and The Dumping Ground.

281 BARB, 2014.
Annex II, assessment of reach

1. Introduction

Under Article 3(2) of the Royal Charter it is stated that the BBC’s main object is the promotion of its public purposes. For the BBC to be able to deliver public value, its consumption is key and reach, measuring the number of people who consume at least 15 consecutive minutes of BBC content a week, is its meaningful proxy.

Similarly, the BBC has a role in serving minority and underserved audiences. A further useful measure of reach, tied to the achievement of the public purposes, is the extent to which the intended audience consumes BBC content or indeed, the extent to which any BBC content reaches particular groups. Our assessment of reach therefore considers whether:

1. a sufficient number of people will use the proposed services for them to be worthwhile
2. the proposed services increase, maintain or lessen total reach of BBC content
3. the proposed services increase consumption by and reach among any particular groups having special relevance to achievement of the BBC’s Public Purposes

We have taken both a qualitative and quantitative approach to assess the above basing our analysis on:

- The Executive submission
- ICM quantitative research
- BARB data
- BBC surveys
- Ofcom research

2. Executive summary

We reviewed the Executive’s assessment of reach and conclude that its approach is broadly reasonable. For this reason we have calculated our own estimates following its methodology and assumptions, only on some occasions proposing different approaches. Our conclusions are broadly in line with those submitted by the Executive in its application, as shown in Tables (a) and (b) below. In particular, having analysed all the evidence available, we believe that the package of proposals as a whole will cause:

1. A reduction between 0.8% and 1% of BBC reach among the entire UK population
2. A reduction between 2.7% and 3.2% of BBC reach among those aged 16-34

These results are driven by:

1. A modest increment in reach due to the BBC One drama investment
2. The loss of BBC reach associated with the closure of BBC Three as a linear channel
3. BBC Three Online service being unable to reach a significant amount of viewers in the medium run
4. BBC One +1 contributing modestly to the increment in BBC reach and
5. CBBC extended hours and iPlayer enhancement having very moderate impact on reach
Table (a): comparative assessment of reach, Trust and Executive (numbers are rounded)

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Trust</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Drama investment</td>
<td>+0.17%</td>
<td>NA</td>
</tr>
<tr>
<td>2. Closure of BBC Three as linear channel</td>
<td>-1.3% – -1.5%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>3. BBC Three as an online channel</td>
<td>+0.007%</td>
<td>NA</td>
</tr>
<tr>
<td>4. Launch of BBC One +1</td>
<td>+0.2%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>5. Extended hours for CBBC</td>
<td>≤+0.01%</td>
<td>+0.01%</td>
</tr>
<tr>
<td>6. Evolution of BBC iPlayer</td>
<td>&gt;+0.07%</td>
<td>NA</td>
</tr>
<tr>
<td>7. Impact of overall proposal</td>
<td>-0.8% – -1%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

Table (b): comparative assessment of reach for 16-34, Trust and Executive

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Trust</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Closure of BBC Three as linear channel</td>
<td>-3% – -3.5%</td>
<td>-3%</td>
</tr>
<tr>
<td>2. Launch of BBC One +1</td>
<td>+0.3%</td>
<td>+0.5%</td>
</tr>
<tr>
<td>3. Impact of overall proposal</td>
<td>-2.7% – -3.2%</td>
<td>-2.5%</td>
</tr>
</tbody>
</table>

Our analysis suggests that the proposal could penalise a younger audience, i.e. those below 34, who, by losing BBC Three as a linear channel, may not find a ready substitute in the BBC offer. This is partially because at present, online consumption does not appear to be a substitute for broadcast television and partially because the take-up of the proposed BBC Three Online service in the medium run does not appear to be particularly striking. Furthermore, it is not clear that those in the target age group whose only contact with BBC television is through BBC Three would be able to find other content suitable for their needs on other BBC television channels.

The effects of the proposal are even more acute when looking at the very young, those below 24, black audiences, and young viewers in the C2DE demographic. BBC Three has done particularly well among these groups, with unique reach steadily growing over the last five years. The evidence is particularly compelling when considering that overall BBC television reach has been in decline.

The introduction of the new BBC One +1 moreover does not appear to offset these results. While BBC One +1 could attract proportionally more 16-34 year olds than other age cohorts, the proportion of those reached would be notably smaller than those that would be lost by the closure of BBC Three. This is because both the predicted share of BBC One +1 will be relatively small and because the BBC One +1 offer will not be targeted at that age group. Therefore, while the proposals overall will cause only a modest reduction of UK BBC television reach, they will exercise a more substantial effect on underserved younger audiences under the age of 34 and in particular those below 24 years old, C2DE, and black audiences.

While the Executive has indicated that it intends to broadcast BBC Three programmes on late night slots on BBC One and BBC Two, it also indicated that this would likely be a transitional arrangement. We estimated the effects of the proposal in relation to 2017 and although the Executive has not provided detail regarding the length of the transitional arrangement, it could have run its course by 2017.

---

282 The Executive’s model calculates that the drama investment will cause an increment in reach of 0.17. However, it is excluded from the aggregate effect because the drama investment is part of the Executive’s counterfactual.


284 The Executive in its application considered that the net impact on the BBC’s viewing share due to the recovery from other BBC channel viewing likely to be minimal.
3. The Executive application

As part of its application the Executive submitted a model to estimate the potential effects of usage and overall time spent with the BBC for the proposed changes to BBC Three, BBC One, BBC iPlayer and CBBC. It provided an estimation of the cumulative impact of these changes on an annual basis from 2015 through to 2018. The Executive also provided the impact of these changes on each of the services in turn. In this section we describe the Executive’s high level approach to modelling, providing more detailed analysis in the sections that follow.

The metrics used to evaluate BBC usage by the Executive were viewing hours and viewing shares. It also considered the impact on reach resulting from the closure of BBC Three, the launch of BBC One+1 and the extension of hours for CBBC. The Executive took a sequential approach to modelling the audience impact, and, assuming that the changes were unlikely to lead to any overall increase in the aggregate time that people spent watching television programmes, it investigated the redistribution of audiences across BBC and third-party services. The sequential steps of the Executive model are:

- assessment of the impact of the additional investment in BBC One
- modelling the impact of reinventing BBC Three online
- modelling the impact of launching a BBC One+1 service
- modelling extending CBBC by two hours each night
- modelling the audience impact of the changes to BBC iPlayer

The Executive evaluates the likely effects of the proposed changes against what is likely to occur if the proposal would not happen. The Executive assumes that, in absence of the approval of its proposal:

- BBC Three would continue as a linear channel and its share would continue to be stable at its current level of 1.48%
- The increment in investment of £30m in BBC One will result in a pro rata increase in viewing on a linear/PVR and catch-up basis. As a consequence, the Executive base case share for BBC One would be 21.7% compared to the 2013 value of 21.0%
- In the counterfactual it is assumed that there will be a contraction of CBBC’s share, dropping from the current 0.5-0.6% to 0.4%
- The assumptions regarding BBC iPlayer consumption are based on Mediatique forecasts of viewing of BBC iPlayer, adjusted to reflect the impact of investment in BBC One

The Executive estimates that the four proposals, when considered together, will have a minimal impact on BBC share by 2017 compared with the counterfactual. In aggregate, the four proposals will result in a 0.06 percentage point increase in share of viewing by 2017. The percentage point change in share can be broken down as follows:

- a reduction in BBC share of viewing due to the closure of BBC Three and its reinvention online (-0.90 percentage points)
- an increase in BBC share of viewing due to the launch of BBC One+1 (+0.82 percentage points)
- an increase in BBC share of viewing due to the extension of CBBC hours (+0.03 percentage points)
- an increase in BBC share of viewing due to the changes to BBC iPlayer (+0.07 percentage points)

See Mediatique, 2013, Implications of a change to the BBC’s on demand permissions.
The Executive’s application also reports an associated drop in reach being equal to 0.93% among the entire UK population by 2017. The impact will be more acute for those aged 16-34, where the closure of BBC Three linear would result in a drop of 2.5% of BBC television reach.

4. Trust assessment of reach

Our assessment of reach starts from the Executive application, considers the model used and its underlying assumptions. We discuss each of these in turn analysing the proposals separately. As a general level we accept the principles behind the Executive modelling and the sequential approach to modelling with the exception that, absent the implementation of the BBC Three proposition, none of the other proposals would be realised. However, for exactly this reason, we believe that the counterfactual base case should not consider the impact of additional investment in drama as there is a dependency between the increase in drama investment on BBC One and the closure of BBC Three as a linear channel. Therefore, our counterfactual does not reflect the impact of the additional drama investment. Instead, this is modelled as one of the proposals and is discussed in the next section.

5. Drama investment

Although changes in investment are made at the discretion of the Executive, subject to oversight by the Trust, there is a financial dependency between the increase in drama investment and the closure of BBC Three as a linear channel. Therefore, we considered it as part of our assessment.

To establish the effect that the drama investment will have on reach we considered first the impact that the investment will have on share, and then how this translates into reach variations. Using the methodology proposed by the Executive, the £30m drama investment will generate an increment in the BBC television share of 0.47 percentage points in 2017.

We used this value to compute the likely impact on reach of the drama investment following the Executive’s methodology. In particular, to understand how a change in share translates into a change in reach, the Executive has looked at the historic relationship between television reach and television share finding a nonlinear monotonically increasing relationship represented in the graph below (Figure a).

Figure (a): Executive Analysis: share/reach relationship

Source: BARB Data, Communications Chambers Analysis
Smaller channels quickly gain reach as they gain share as there is a large pool of previously unreach ed viewers to capture. However for larger channels, the pool of unreached viewers is smaller and incremental viewing is less likely to bring incremental reach. Based on this relationship, the Executive estimates that a one percentage point change in BBC total viewing implies a 0.36 percentage point change in reach.\textsuperscript{286}

We believe that this approach is sensible and provides a good methodology to derive the likely reach variations associated with share changes. We therefore used the share/reach coefficient estimated by the Executive to calculate that a 0.47 percentage points increase in BBC television share due to the drama investment will map to a 0.17% increase in total BBC television reach.

\section*{6. Closure of BBC Three and its reinvention online}

\subsection*{Closure of the linear channel}

To calculate the impact of the closure of BBC Three Online and its reinvention as a linear channel, we have taken the approach of the Executive by looking first at the impact of the channel closure and then at the recovery through the online service. We agree with the Executive that the BBC can expect to recapture some of its linear share via a redistribution of viewing of other channels (including other BBC portfolio channels) and via increased online viewing of the BBC Three content available online.

To compute the loss of BBC reach associated with the closure of the linear channel, we looked at the current reach of the channel. In 2014 this was equal to 19.1% of which 1.6% was unique reach, i.e. reach from viewers that watch only BBC Three and no other BBC television channels.\textsuperscript{287}

In line with the Executive, we expect that those who currently use other BBC services will continue to be reached. The question is whether other BBC linear channels will recapture the BBC Three unique viewers. The Executive estimates that the closure of BBC Three as a linear channel will cause a 1.3% drop in overall BBC reach by 2017, with 80% of 1.6% unique reach being lost.\textsuperscript{288} In reaching this conclusion, it used two main assumptions:

1. BBC Three unique reach stays constant, i.e. the 1.6% value in 2014 is the same in 2017
2. Only 20% of ‘uniquely reached’ viewers switch to other BBC television channels\textsuperscript{289}

Forecasting reach is somewhat challenging, due to possible changes in the variables that affect it, such as schedules, tastes and competitor offers. We therefore accept that constant reach over time is a fair assumption. However, BBC Three’s unique reach over the past five years has grown at a constant rate of roughly 0.1% a year. Assuming that everything stays constant, we could likewise plausibly assume that were BBC Three to keep operating as a linear channel, its unique reach

\textsuperscript{286}Communications Chambers Forecast Consumption and Preliminary Market Impact Assessment of Revised Services, 2015, p.39.
\textsuperscript{287}This figure does not include reach via BBC iPlayer, which it is currently untracked by BARB. BARB, 2014.
\textsuperscript{288}Note that to calculate the loss in reach associated with the closure of BBC Three as a linear channel, the Executive used the unique reach metric rather than the methodology that relates share to reach as described in the previous section. We agree with this approach since it is more robust and less prone to errors associated with transforming share in reach. If the Executive were to use shares’ variations to forecast the change in reach the decline would be slightly smaller than the one predicted by using the unique reach metric.
\textsuperscript{289}In terms of methodology the Executive uses unique reach rather than share to compute the change in reach. We agree with this approach since it is more robust and less prone to errors associated with transforming share into reach. If the Executive were to use share, the forecasted reduction in reach would be slightly smaller than the one they obtain by using the unique reach metric.
reach would continue to grow at the same rate, with the result that by 2017 it would be equal to 1.9%.

**Figure (b): BBC Three’s unique reach**

![BBC Three Unique Reach Graph](image)

*Source: BARB Data, Trust Analysis*

Figure c represents BBC Three’s unique reach between 2010 and 2017; the red dots represent forecasted values while the blue dots are actual values. Having considered the available data and taking account of the uncertainty associated with predicting future reach, we considered both the case in which unique reach grows, and the case in which it stays constant.

With regard to the assumption that 20% of the uniquely reached would switch in favour of other BBC channels, the Executive has not grounded this in robust evidence. However, given the limited amount of information with which to inform this assumption we consider the approach broadly reasonable. We believe that it is plausible to reject the hypothesis of zero switching: in the absence of BBC Three some viewers may find other BBC television channels to their liking. We also believe that a 20% switching figure is plausible and represents only a minority of viewers. This is because there may be other non-BBC television channels with more similar offer to BBC Three or some viewers may decide to switch off the television. For these reasons we use this assumption in our own analysis.

**Forecast change in reach due to BBC Three closure as linear channel**

Assuming an increment in share in line with the current trends, and a loss of 80% of those uniquely reached, we find a loss of BBC television reach equal to 1.5%. We believe therefore that the loss of reach associated with the closure of BBC Three as a linear channel is likely to sit between 1.3% as predicted by the Executive in its application, and 1.5%, if unique reach were to grow according to the current trend. In terms of absolute numbers, by closing BBC Three as a linear channel, the BBC television would effectively lose between 800,000 and 900,000 individuals.

---

290 We are aware that going forward, the BBC will no longer have the rights to new seasons of *Family Guy*. While we recognize that *Family Guy* is a top performing BBC Three programme, it is difficult to identify the impact of this move on BBC Three reach for a number of reasons. First, in keeping with the Ofcom tier two original productions quota, BBC Three would have the ability to allocate up to 30% of its hours to acquisitions and may buy something else which may or may not be as successful from a ratings perspective. Secondly, the approximate scale of the channel would remain in any case constant.
Demographic characteristics of BBC Three uniquely reached groups

We interrogated the data to understand the composition of those uniquely reached viewers and found that in 2014, BBC Three was the only BBC television channel that reached:

1. 3.6% of those in the 16-34\textsuperscript{291} age group in particular,
2. 4.9% of those in the 16-24\textsuperscript{292} age group and
3. 4.1% of teens between 12 and 15\textsuperscript{293}
4. 6.7% of C2DE men in the 16-24\textsuperscript{294} age group
5. 4.7% of C2DE women in the 16-24\textsuperscript{295} age group
6. 2.9% of black audiences\textsuperscript{296}

We examined how BBC Three’s unique reach in these groups has evolved over the last five years and found that in each of the groups there was positive growth. In the graphs that follow the blue dots represent actual values and the red dots forecasted values assuming a constant growth rate.

Figure (c): BBC Three unique reach for 16-34 age group

---

\textsuperscript{291} The 16-34 age group comprises 540,000 individuals that are divided almost evenly between ABC1 and C2DEs. BARB, 2014.
\textsuperscript{292} Corresponding to 326,000 individuals, BARB, 2014.
\textsuperscript{293} Corresponding to 110,000 individuals, BARB, 2014.
\textsuperscript{294} Corresponding to 102,000 individuals, BARB, 2014.
\textsuperscript{295} Corresponding to 75,000 individuals, BARB, 2014.
\textsuperscript{296} Corresponding to 54,000 individuals, BARB, 2014.
**Figure (d):** BBC Three unique reach for 16-24 age group

Source: BARB, Trust analysis data in red are forecasted assuming constant growth trend

**Figure (e):** BBC Three unique reach for 12-15 age group

Source: BARB, Trust analysis data in red are forecasted assuming constant growth trend

**Figure (f):** BBC Three unique reach for C2DE men aged 16-24

Source: BARB, Trust analysis data in red are forecasted assuming constant growth trend
Figure (g): BBC Three unique reach for C2DE women aged 16-24

![BBC Three Unique Reach Women C2DE 16-24](chart)

Source: BARB, Trust analysis data in red are forecasted assuming constant growth trend

Figure (h): BBC Three unique reach for black audiences

![BBC Three Unique Reach Black Audiences](chart)

Source: BARB, Trust analysis data in red are forecasted assuming constant growth trend

If unique reach were to grow as the rate it grew between 2010-2014, in 2017 we would observe a unique reach equal to:

- 4.4% among 16-34
- 4.8% among 12-15
- 5.9% among 16-24
- 3.2% among black audiences
- 8.2% among 16-24 men C2DE and
- 6.1% among 16-24 women C2DE.

Using the assumption that only 20% of those uniquely reached by BBC Three would switch to other BBC television channels, we computed that the potential loss of reach among the above demographics would be equal to:

- 3.5% among 16-34
- 3.8% among 12-15
- 4.7% among 16-24
• 2.6% among black audiences
• 6.6% among 16-24 men C2DE; and
• 4.9% among 16-24 women C2DE.

Table (c): forecast of BBC Three’s unique reach and loss of reach due to BBC Three closure

<table>
<thead>
<tr>
<th>Demographic group</th>
<th>Forecast BBC Three unique reach in 2017</th>
<th>Forecast loss in BBC television reach due to closure of BBC Three in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 16-34</td>
<td>4.4%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2. 12-15</td>
<td>4.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>3. 16-24</td>
<td>5.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>4. Black audiences</td>
<td>3.2%</td>
<td>2.6%</td>
</tr>
<tr>
<td>5. Men C2DE 16-24</td>
<td>8.2%</td>
<td>6.6%</td>
</tr>
<tr>
<td>6. Women C2DE 16-24</td>
<td>6.1%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: BARB Data, BBC Trust analysis

When translated into actual numbers, the percentages do not represent a large part of the population. Nevertheless, they still represent a non-negligible proportion of those belonging to these demographic groups, particularly in respect of the dynamics of other BBC television channels’ reach in the last five years.

Figure (i): total BBC television reach excluding BBC Three unique reach, 16-34

Source: BARB

Figure (j): total BBC television reach excluding BBC Three unique reach, black audiences

Source: BARB
Figure (k): total BBC television reach excluding BBC Three unique reach, C2DE men aged 16-24

Source: BARB

Figure (l): total BBC television reach excluding BBC Three unique reach, C2DE women 16-24

Source: BARB

Figure (m): total BBC television reach excluding BBC Three unique reach, those aged 12-15

Source: BARB
While BBC Three television’s unique reach has been growing steadily across all the demographic groups, other BBC television channels have lost reach steadily. For example, using 2014 data, if 80% of those uniquely reached by BBC Three in the C2DE men group aged 16-24 was lost, BBC television reach would suffer a reduction of 8.5% of its total reach in that demographic group. While it can be argued that young viewers are difficult to reach because they consume less television than older age groups and are likely to watch more television as they get older, there is still the risk of losing a generation of viewers.

It is difficult to take a definitive view on which of the two scenarios would in practice obtain, but the loss of reach in underserved demographic groups is cause for concern, particularly in light of the reach trends of other BBC television channels. To conclude, our prediction is that by 2017 the closure of BBC Three as a linear channel will cause a reduction between 1.3% and 1.5% of BBC television reach among the entire UK population and 3% - 3.5% of BBC television reach among those aged 16-34. We consider a range of values because of the uncertainty associated with reach growth over time.

**Recovery via an online service**

To understand the impact of the launch of BBC Three as an online channel, the Executive estimated the increment in viewing hours and share that the new service will bring to the total BBC television viewing. In its calculation the Executive forecast BBC Three viewing on BBC iPlayer in the absence of closing the BBC Three broadcast channel and launching it online as its counterfactual case. The Executive assumes that BBC Three viewing on BBC iPlayer will grow in line with BBC iPlayer’s overall growth. It then made four adjustments to the counterfactual to estimate the impact of the closure of the BBC Three as a linear channel and its online launch:

- capture of consumption that would previously have taken place via the linear schedule but will (per force) happen online
- loss of promotion by a linear channel
- benefits of BBC Three becoming ‘built for online’
- reduction in content budget

The Executive discusses each of the elements and makes assumptions to the consumption impact of each of the relevant factors and then combines these assumptions to develop a forecast of the overall change in BBC iPlayer consumption as a result of the changes to BBC Three. We consider in turn our considerations regarding the assumptions of the Executive for each of the factors and the counterfactual.

**Assessment of the Executive model**

**Counterfactual**

The data confirm that the number of BBC Three iPlayer requests has grown in line with the total BBC iPlayer requests. Therefore we believe that the assumption that BBC Three online viewing will grow in line with total BBC iPlayer growth is supported by the evidence and for this reason we have adopted it in our analysis.

---

297 In 2014 the unique reach of BBC Three in the 16-24 C2DE men was equal to 6.7%. 80% of this number represents 8.5% of the total BBC television reach in the same demographic group, which was equal to 63.1% in 2014.

298 Note that a proportion of this group might be consumers of BBC online and/or radio services.

299 Note that the Executive forecasted the growth of BBC iPlayer services, taking into account broadband take-up and distribution of online viewing capable devices.
**Online substitution**

In their application the Executive explains that if a programme is only available online, then those who know of it and might previously have watched on television may shift their consumption to online, increasing BBC iPlayer usage. However this may be an effect that fades over time since the strong relationship built via the linear weakens. This is due to the fact that over time familiar shows will drop out of the schedules and thus BBC Three iPlayer consumption will be increasingly dependent on online discovery.

To understand the potential initial effect of online substitution, the Executive have compared online viewing for premiered programmes to the online viewing of previous series without premiering, taking from it an indication of the uplift in online viewing that will result from online-only availability. We believe that the use of premiering is a good proxy for the situation when content is available on BBC Three online only, we also think that in the absence of better information the approach of the Executive is sensible and find that the proposed uplift of 153% plausible.

**Loss of promotion by a linear channel**

To inform how the closure of BBC Three as a linear channel will affect its online consumption, the Executive has looked at the percentage of consumers that used BBC iPlayer to discover new content and those that used it to find a specific programme. The Executive recognises that it is challenging to estimate the exact impact of the loss of linear promotion and that it is likely that its impact will fade over time in the event that BBC's online services will become increasingly a place to discover content. We agree with the Executive’s approach and believe that the assumption of a reduction of online consumption of 31% due to loss of linear promotion by 2017 is sensible.

**Built for online**

The Executive considers that specific content built for online is likely to increase consumption relative to current offer. However they recognize that it is challenging to estimate how great an increase might result. In the absence of strong evidence to base their considerations, they have assumed that built for online content will bring a 25% uplift. We agree with the approach and the consideration of the Executive and while this assumption is not based on evidence we consider that the considerations supporting the assumption are sensible. We have performed some sensitivity analysis finding that the difference in the final result would not be material.

**Budget change**

The executive estimated that the change in budget will cause a 44% reduction in BBC Three online consumption. They computed this figure on the basis of a reduction in the BBC Three content budget, from approximately £60m (of which £[ - REDACTED ] was spent on originations including repeats in 2013/14) to c£30m (including repeats and acquisitions) by 2016/17. We agree that the amount of budget might have an impact on viewing and that therefore it is sensible to consider its impact in the model. However we have used a figure of 47% due to revised BBC Three budget figures provided by the Executive.

---

300 For example an uplift of 50% generated an increase of less than 0.1 percentage points of total BBC television viewing in 2017.
**Combined impact**

Using the methodology proposed by the Executive and the assumptions above we calculated that the launch of BBC Three as an online channel would bring an increase of 0.02 percentage points of total television viewing for the year 2017.

**Reach variation associated with the launch of BBC Three as an online channel**

In its application the Executive does not attempt to calculate the impact on reach of the launch of BBC Three as an online channel. This is due to the lack of data on reach and share for BBC iPlayer consumption. In particular, BBC iPlayer consumption volumes are recorded by measuring the number of devices requests that access the service. Data available on people (reach) are collected on the basis of nationally representative surveys. This makes the task of getting a figure of the likely reach implied by the forecasted share quite difficult and prone to mistakes, because the relationship between volume of viewing per person and reach in an online context is unknown.

We have therefore considered whether, lacking an exact figure for the share/reach transformation ratio, we could identify a lower and upper bound to be used for our calculation of the worst and best case scenario for online reach. We first considered how the linear television share/reach relationship identified by the Executive could relate to online television. In this respect we have considered the followings:

1. It is quicker to flick through television channels than online programmes: it requires less effort to change programme when consuming it on television than online. This suggests that it is more likely for someone who consumes online to remain watching the programmes for longer than someone watching on television, i.e. more likely that share maps into reach when watching online than on linear television. This consideration suggests that the transformation coefficient between share and reach should be higher for online consumption than for television consumption.

2. Browsing for content is done more frequently on linear television than online. According to BBC analysis, six per cent of people find content online via browsing.\(^{301}\) The equivalent for television is 18\%.\(^{302}\) Because the average stay on a programme is lower for browsers than non-browsers, and because the share of browsers is lower for online television than linear television, this suggests that online television share is more likely to translate into reach than linear television share. In other words, online television consumers are more likely to watch a programme for more than 15 minutes relative to linear television consumers, because they tend to spend less time browsing. This consideration suggests that the transformation coefficient between share and reach should be higher for online consumption than for television consumption.

3. The forecast suggests that BBC Three online channel will have a much smaller share than that of BBC group linear channels. Based on the Executive analysis, channels with smaller share quickly gain reach as they gain share, since there is a large pool of previously unreached viewers to capture. However, for larger channels the pool of unreached is smaller and thus incremental viewing is less likely to bring incremental reach. This consideration suggests that the transformation coefficient between share and reach should be higher for BBC Three as an online channel than that of the BBC group television channels.

\(^{301}\) Pulse, August 2014.
\(^{302}\) BBC Audiences research, May 2014.
Given the above, we believe that a good proxy for a lower bound online television share/reach transformation ratio can be represented by 0.36, the value identified by the Executive for linear BBC television. With regard to a possible upper bound for our calculation, the Executive has informed us that according to its analysis, there is no upper bound to the relationship between share and reach and that while the curve to derive the relationship is consistent in its shape over the years, there is a degree of uncertainty about the slope of the curve at any particular point. Given the limitation of the data available and the uncertainty in relating the linear television performance to the online performance, we have not been able to identify an upper bound for the share/reach transformation coefficient for online consumption.

Based on these considerations we have used the linear television 0.36 share/reach transformation coefficient to calculate the lower bound increment in reach that BBC Three online channel could bring to the total BBC television reach. Using this value we forecast that the launch of BBC Three as an online channel will increase total BBC television reach as a minimum by 0.007% in 2017.

7. Launch of BBC One +1

We took as our starting point the Executive’s application. The Executive first computed the likely increase of BBC viewing associated with the launch of the new channel and then estimated how this increment would translate into an increment in reach. To estimate BBC One +1 viewing share, it undertook an econometric analysis of the drivers of +1 channel share relative to the relevant parent. As a comparator set it used the four main ITV channels, Channel 4, Channel 5, E4, and Dave (and their respective +1s), and as explanatory variables it used the EPG gap between the parent and the +1, and the scale of the parent channel.303

Under the working assumption that BBC One+1 could replace BBC Three in the same EPG slot on all television platforms (except on Freeview) the Executive estimated that BBC One+1 would have a share of total viewing of 1.6% in 2017. The Executive analysed previous +1 channel launches to understand what portion of this viewing would be incremental to BBC One and concluded that 70% of the new viewing would be incremental to the parent channel’s share, and 30% would be at the expense of the parent channel.304 The Executive estimated that the net impact of launching a BBC One+1 channel on the BBC family share of viewing would be equal to +0.8 percentage points. Using the share/reach transformation ratio equal to 0.36 it estimated an in increment in overall television reach of 0.3%. For those aged 16-34, it forecast that BBC One +1 would deliver a 0.5% gain in reach.305

We believe that the econometric approach is the most appropriate to derive the likely change in BBC television share due to the launch of BBC One +1, and we agree that the choice of channels and the use of EPG delta for analysis are appropriate. However we believe that the econometric model proposed by the Executive has some limitations:

- the data set is made from a limited number of observations
- the variables used have a low explanatory power
- the model specification superimposes a relationship between parent and +1 channel that appears overly restrictive

We are aware that Ofcom employed a different approach to predict the likely effects of the launch of the BBC One+1 channel. It expanded the data set of analysis by gathering input data for each channel on each of the three major platforms (Freeview, Sky and Virgin Media)

---

304 Communications Chambers, Forecast Consumption and Preliminary Market Impact Assessment of Revised BBC Services Report, pp.37.
305 Based on a 0.75 reach point gain per share point given the BBC’s lower share in this age group.
separately and used input data for 2011, 2012 and 2013. In terms of model specification, Ofcom considered some additional independent variables, including:

- The demographic skew of the channel towards children
- The demographic skew of the channel towards adults aged 16-34
- The demographic skew of the channel towards adults aged 35+
- A PSB dummy variable (whether the channel is a PSB channel or not)
- Share of viewing of the main channel only

Ofcom’s choice of the dependent variable produced two approaches both of which satisfied standard statistical diagnostic tests and out-of-sample predictions. Each uses a form of the +1 share of viewing as the dependent variable; one is normalised using the main channel share of viewing and the other is not. The former approach (using normalised +1 share of viewing) predicts a higher share of viewing for BBC One +1 than the latter, and its output is consistent with the Executive’s analysis. The latter (not normalised) approach assumes a less restrictive form for the relationship between the parent and +1 share, as it does not go through the normalising step. Its output is considerably lower than the cross-check.

The normalised approach, which produces the larger output, uses the EPG delta, the demographic skew of the channel towards adults aged 16-34 and the PSB dummy variable as independent variables. It uses the normalised +1 share of viewing as the dependent variable. The not normalised approach, which produces the smaller output, uses the EPG delta, the main channel’s share of viewing and the PSB dummy variable as independent variables. It uses the +1 share of viewing (not normalised using the main channel share of viewing) as the dependent variable.

Having very little to distinguish between the two approaches described above and noting the differences in their outputs, we decided to use the two approaches to bound a reasonable range of estimates of BBC One +1 share, considering for the calculation of reach the mid-point between the share estimates produced by the two approaches. According to Ofcom calculations this is equal to 0.53 percentage points in 2017.

We believe that using these two specifications provides the most robust approach given the data limitation. The not normalised approach is our preferred option, but it provides the lowest increment in share of BBC One +1 and may be too conservative in its results. On the other hand, the normalised approach produces results that are in line both with the econometric analysis performed by the Executive and with a more crude comparison with ITV+1’s performance.306

Using the share/reach ratio identified by the Executive we computed that an increment in share of 0.53 percentage points would translate in an increment in reach of 0.19% across the entire UK population.307 We then looked at the age profiles for channels and their corresponding +1, to understand how the increment in share could be distributed across different age groups.

---

306 The Executive provided an estimate based on ITV1 +1’s share of viewing where the latter were uplifted to account for the larger main channel share of BBC One, and for the higher prominence that BBC One +1 is expected to achieve relative to its main channel. Using this methodology the Executive estimates a BBC One +1 share of around 1.6%, which is consistent with the Executive econometric analysis described above.

307 Note that the implied reach of the not normalised model, which delivers a share increment equal to 0.42 percentage points, and of the normalised model, which delivers a share increase equal to 0.64 percentage points, are respectively equal to 0.15% and 0.23%, i.e. very close to the reach computed by using the mid-point method.
When looking at the entire population, on average, +1 channels have an audience three years younger than the parent channels. The difference however is mainly driven by those aged over 65, whose consumption of +1 channels is 10% lower than their consumption of parent channels.

When we exclude this group, the average age of viewers across the parent channels and plus one is roughly the same, with plus one viewers on average being on average less than one year younger than those who watch parent channels. This suggests that, although a +1 channel can be more attractive for some age groups, the schedule element is stronger in driving the audience. We then looked at the distribution of shares across different age groups and found, consistent with the Executive application, that 16-34 are slightly more likely to watch +1.
channels than the average viewers. We used this finding to compute the likely impact on reach on this group by considering:

- the total BBC television share variation due to the launch of BBC One +1 equal to 0.53 percentage points
- the share of this variation that will be captured by 16-34 year olds considering the actual proportion of 16-34 year olds that watch BBC One and the uplift of 2.7% associated with the likelihood of younger viewers to watch a plus one channel
- The share/reach ratio as computed by the Executive for the 16-34 age group 16-34 equal to 0.75

Our forecast variation of the launch of BBC One + 1 will provide a gain in reach among 16-34s of 0.32%.

8. Extended hours for CBBC

As part of our assessment, we wanted to establish the impact of extended broadcast hours on reach among younger viewers. Using the share trajectory of other children’s channels broadcast in the period between 7pm to 9pm, the Executive estimates that an extra two hours will increase BBC viewing share by 0.03% in 2017, with an increase in BBC television reach of 0.01%

As a first step, we have considered whether the trajectory of other children’s channels was a good basis for the calculation of the likely changes in share associated with extending CBBC hours. We looked at the quantitative research, finding that roughly 65% of respondents thought that the current children broadcasting hours were sufficient, with this increasing to 76% among those with children. According to these responses, it appears that there is not much appetite for additional hours of children programming broadcasting. However, it can be difficult to assess the use of a service before it is launched and individuals may over or underestimate their actual usage. Furthermore, the proposed extended hours would transmit repeats, possibly reducing the appeal of the offer (although we note that the rationale was to provide further opportunities to watch high-quality programmes at a time when children are able to watch them)

We then looked at the average children’s audience between 7pm and 9pm to understand likely demand for extended hours. The Executive proposes using the first hour (between 7pm and 8pm) for programmes that appeal most to 6-9 year olds and the second hour for programmes which appeal to those aged 10-12. We therefore divided the cohort of viewers in two.

The television viewing patterns of children aged 6-9 and 10-12 have different peaks of 7-8pm, and 8-9pm respectively, suggesting that the Executive has identified the right pitch. However, children tend not to watch children’s channels in the evening – the share figures of selected children’s channels peak respectively between 5-7pm and 6-7pm.

---

308 Note however that the relative share of +1 channel is notable lower than that of parent channels, and even if younger viewers are more likely to watch those channels, in absolute terms the shares of +1 channels is notably small.

309 Given BBC’s lower share in this age group, there is a 0.75 reach point gain per share point.

310 Channels used in the comparator set are Cartoon Network, the Disney Channel, Nickelodeon, Pop and their relevant +1s.

311 In its calculation the Executive assumes that CBBC will decline over time reaching a share of 0.4% in 2017. CBBC share’s trend is consistent with the trajectory predicted by the Executive and therefore we believe it represents a fair forecast for the future.
This suggests that children in the target groups tend to watch non-children dedicated programmes between 7-9pm, possibly watching television together with older members of their family. We consider it likely that those children who watch non-children programmes will continue to do so and that the BBC offer may have more appeal to those who watch other children channels during this time. Therefore, the extension of CBBC hours will attract a higher...
proportion of the audience from other children dedicated channels rather than non-dedicated television programmes. For these reasons we believe that using other children’s channels’ trajectories might slightly overestimate the associated increment in share and reach of the extended hours of CBBC. However because it is difficult to quantify precisely by how much the Executive application overestimates the impact on reach we believe we can use the figure estimated by the Executive as an upper bound estimate.

9. Evolution of BBC iPlayer

The Executive application proposes two changes to the iPlayer:

1. **More premiering**: around 10 titles per year for CBBC and CBeebies and five titles in total across BBC One, BBC Two and BBC Four will be premiered online
2. **Inclusion of third-party content**

As part of our assessment, we therefore wanted to establish whether the changes to BBC iPlayer would lead to an incremental increase in the consumption of BBC content. In its application, the Executive computed the impact of premiering 25 titles annually, assuming 10 episodes per title, and 100,000 requests per episode. These assumptions imply a base total of 25m requests or just over 2m per month. The Executive also assumed that premiering could increase consumption by 150%, which implies a total of 3.2m additional requests per month. Thus premiering could lead to an increase in the BBC share of viewing of 0.07% in 2017.

We agree with the approach and with the 150% uplift. However, we questioned the assumption regarding the number of requests per episode used in the calculation. In its application the Executive uses 100,000 requests on the basis that the strongest performing episodes on iPlayer from CBBC receive 100,000 to 500,000 requests and those from CBeebies receive 60,000 to 260,000. It then explains that these figures already reflect some benefit from premiering and premiering would not be exclusively focused on the highest profile content. Hence it assumed an average request figure of 100,000 for the purposes of forecasting.

Discussions with Ofcom allowed us to establish a shared understanding of the likely number of requests per episode, which we believe will be equal to 200,000. We believe this is a more accurate estimate of the base number of requests for children’s programmes that are likely to be premieres. This is because it takes into account:

- a longer period of time (more than three months vs one month in the Executive model)
- the extension of BBC iPlayer catch-up window from seven to 30 days
- the actual average number of requests per episode of titles mentioned in the Executive service proposal

Using 200,000 requests per episode we can obtain an increase in BBC television share for 2017 of 0.20 percentage points. By using the same approach as per the calculation of reach for the launch of BBC Three as an online, we consider that as a minimum this will increase reach by 0.07% in 2017.
Annex III, assessment of costs

1. Cost savings

When the Executive originally announced its proposal it estimated savings of at least £50m from the closure of the BBC Three linear channel. This estimate was calculated using the most recent BBC Three service licence available at the time less any allocated costs such as copyright payments and sport as these would need to be redistributed among other BBC services if the channel closed. The Executive confirmed that this reallocation would not impact materially on the content budget of other services.

It was always anticipated that some of the gross saving would be used to reinvest in BBC Three online. The table below contains a more recent estimate and shows the net saving after deducting investment in BBC Three Online. We understand the Executive intends to use this saving to implement the remaining proposals and to strengthen drama on BBC One.

Table a: estimated on-going annual saving net of re-investment - rounded

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBC Three broadcast channel budget excluding allocated costs</td>
<td>60</td>
</tr>
<tr>
<td>Investment in BBC Three Online (table b)</td>
<td>-30</td>
</tr>
<tr>
<td>Net saving</td>
<td>30</td>
</tr>
<tr>
<td>BBC One +1cost (excluding distribution costs) (table c)</td>
<td>[ - REDACTED ]</td>
</tr>
<tr>
<td>BBC iPlayer cost (table d)</td>
<td>[ - REDACTED ]</td>
</tr>
<tr>
<td>CBBC cost (table e)</td>
<td>0</td>
</tr>
<tr>
<td>Amount available for reinvestment in BBC One Drama</td>
<td>c.28</td>
</tr>
</tbody>
</table>

2. Cost breakdown

**BBC Three online**

Estimated annual costs

BBC Three online will have an annual content budget of £30m per annum, as set out above (excluding £[ - REDACTED ] for news and £[ - REDACTED ] for sports and other allocated costs).

Estimated implementation and distribution costs

The Executive has yet to fully model infrastructure and distribution costs for BBC Three online but has confirmed that distribution costs would include IP distribution costs of approximately £[ -
REDACTED] per annum by 2017-18. This was calculated using reach projections, a unit cost price and an average bit rate.312

BBC Three online has some one-off implementation costs (primarily associated with developing the existing BBC Three website) estimated to be between [ - REDACTED] after factoring in the impact of the delay to launch.313 The Executive has confirmed these costs are covered within the core television budget.

Table b: BBC Three costs (£m)

<table>
<thead>
<tr>
<th>BBC Three Online</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost</td>
<td>[ - REDACTED]</td>
</tr>
<tr>
<td>(excluding implementation and</td>
<td></td>
</tr>
<tr>
<td>distribution costs, news and sport</td>
<td></td>
</tr>
<tr>
<td>and other allocated costs)</td>
<td></td>
</tr>
</tbody>
</table>

BBC One +1

Estimated annual cost

The Executive has provided the incremental cost (excluding allocation of overheads) for the implementation of the +1 channel, which relates to additional staff to monitor play-out and associated resources and licensing agreements of £[ - REDACTED] per annum.

Estimated implementation and distribution costs

The Executive’s application included an allocation of £[ - REDACTED] in distribution costs for the service. However, we have excluded these from the calculation of the net savings in table a as largely, they would be incurred by the BBC irrespective of whether BBC One +1 was approved.

In addition, there are some one-off implementation costs, which the Executive has estimated to be around £[ - REDACTED], which comprises £[ - REDACTED] for capital expenditure necessary for distribution on all platforms and £[ - REDACTED] for play-out (as below, table c).

Table c: BBC One +1 costs (£m)

<table>
<thead>
<tr>
<th>BBC One +1</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost</td>
<td>[ - REDACTED]</td>
</tr>
<tr>
<td>(excluding implementation and</td>
<td></td>
</tr>
<tr>
<td>distribution costs)</td>
<td></td>
</tr>
</tbody>
</table>

312 BBC Executive, Public Value Assessment of the Reinvention of BBC Three online and Related Proposals, pp.20.
313 BBC Executive, Public Value Assessment of the Reinvention of BBC Three Online and Related Proposals, 2014, pp.72 stated that one off implementation costs were in the region of £[ - REDACTED]. Due to the delay in launch of reinvention of BBC Three as an online service one off implementation costs have increased by £[ - REDACTED].
Evolution of BBC iPlayer

Estimated annual cost

The Executive has provided the incremental cost, which relates primarily to the additional rights costs associated with premiering and has set aside [ - REDACTED ] per annum to cover this. In addition, the Executive has estimated incremental usage costs are likely to be in the region of [ - REDACTED ] per annum assuming a projected level of incremental hours of AV content consumed on BBC iPlayer of c. 62m hours in 2017/18. These are variable costs and broadly speaking depend upon the number of requests for BBC Three programmes as they reflect the volume of data which is transmitted from BBC servers over the internet when audiences click to view.

Table d: BBC iPlayer costs (£m)

<table>
<thead>
<tr>
<th>BBC iPlayer</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost</td>
<td>[ - REDACTED ]</td>
</tr>
<tr>
<td>(excluding implementation and distribution costs)</td>
<td></td>
</tr>
</tbody>
</table>

Extended hours for CBBC

Estimated annual incremental costs

We confirmed with the Executive that there are no additional content or content-related costs associated with the proposal to increase the broadcast hours of CBBC. The content consists of repeats of programmes broadcast earlier in the day.

Estimated implementation and distribution costs

There will be minimal one-off implementation costs of [ - REDACTED ] to effect a change in the transmission hours of CBBC/CBBC HD on all platforms but no on-going incremental distribution costs in so far as capacity becomes available following the closure of BBC Three as a broadcast channel.

Table e: CBBC costs (£m)

<table>
<thead>
<tr>
<th>CBBC</th>
<th>2017-18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated annual cost</td>
<td>0</td>
</tr>
<tr>
<td>(excluding implementation and distribution costs)</td>
<td></td>
</tr>
</tbody>
</table>