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Public service partnerships
Helping sustain UK PSB

Executive summary

This document describes how the BBC, supported by the privilege of licence fee funding, can work with partners to help unlock opportunities in PSB production, distribution and exploitation. The proposals are a response by the BBC Executive to a challenge made by the BBC Trust in June 2008 for the Corporation to explore how it could use the benefits of its scale and security to help sustain PSB as a whole.

Ofcom's second Review of Public Service Broadcasting (PSB) establishes beyond doubt that the current system of PSB is under serious threat. Interventions designed to secure PSB beyond the BBC are declining in value, while the economics of broadcasting are challenged by forces structural and cyclical. Public demand for high-quality PSB, meanwhile, remains as high as ever.

While the debate on PSB's future has focused on changes in regulation and funding, there is much that PSBs can do together in partnership. With secure income and a purpose to 'deliver to the public the benefit of emerging communications technologies', the BBC can be an important catalyst for partnership. Not 'bearing gifts' or expanding, but unlocking sustainable, underpinning benefits across the sector and to the wider creative economy.

The BBC's partnerships have in the past been fruitful but fitful. The scale of present challenges requires a more strategic and consistent approach—one which builds on successful partnerships like Freeview and Freesat.

New areas of proposed partnership

Production	Distribution	Exploitation
<ul style="list-style-type: none">• Driving fully digital production• Sharing regional news resources	<ul style="list-style-type: none">• Sharing the iPlayer• Developing an internet-connected television standard• Supporting broadband take-up and public service content online• Supporting DAB	<ul style="list-style-type: none">• BBC Worldwide delivering additional commercial revenues to PSBs
Enabling partnerships		
Sharing research and innovation, training and audience research		

PRODUCTION

Supporting the transition to fully digital production

The BBC is exploring how it can adapt its own significant digital production investment to help create a common digital production standard for the sector: bringing together the UK's creative industry and technology vendors with 'software as a service' that adheres to agreed industry standards, including:

- *A digital archive tool*: creating a shared repository for the industry allowing content to be more easily stored and accessed by producers and broadcasters in common
- *A digital production tool*: enabling new material to be combined with archive material and moulded roughly before craft edit begins, and which allows content development to be shared more easily by producers, editors and others.

Regional news

The BBC is committed to the long-term delivery of rich regional news services. It is now exploring how its own commitment can help to sustain regional news beyond the BBC, by combining resources in those parts of the value chain that stop short of reducing plurality. The BBC could for example make a significant amount of raw news footage—that covering more routine, less distinctive items—available more widely.

There is also a potentially significant opportunity to share regional news infrastructure. In the medium- to longer-term, and subject to further approvals, the BBC could share infrastructure and broadcast facilities across the UK. Co-location could enable not only shared space but also shared infrastructure, technology and support services.

DISTRIBUTION

iPlayer

iPlayer's phenomenal success points to the possibility of it becoming a video-on-demand platform for PSB more widely—a possibility raised by Ofcom in September. The BBC is therefore exploring sharing the iPlayer technology, knowhow, user experience and design across PSBs.

One possibility is that iPlayer could become a federation of on-demand PSB services. Users could access this federation either via a single broadcaster-neutral central site or through separate '/iplayer' sections of each participating PSB's website, where programmes would be viewed. Each participant would then exploit its own rights as it sees fit—maintaining the benefits of creative competition and editorial independence, but maximising the benefits of shared technology and user experience. We would see this idea being compatible with other PSB partnerships including Kangaroo, to which the BBC and other shareholders remain committed.

Internet-connected television

The BBC has been developing a standards-based open environment for internet-connected television, working closely with ITV and in discussion with other PSBs and industry partners including BT. This standard would be designed to offer consumers an integrated broadband and broadcast service, free-to-air and accessed through a single, simple user experience. It

could be made available by any internet service provider offering a suitable broadband connection.

The proposal would offer audiences existing free-to-air radio and television services including High Definition, while also bringing on-demand video, audio and web-based content like iPlayer to the television set. Above all it would help protect the competitiveness of free-to-air platforms and a direct open relationship between PSBs and audiences.

Broadband

The BBC's website, BBC Online, is valued and trusted very highly by audiences—so much so that it is now the third most-visited site in the UK (and the only British-owned and run site to be in the top ten). But BBC Online could be a better guide to high-quality PSB content elsewhere on the internet. Through increased linking, syndication and wider partnership, the site could go some way to addressing Ofcom's concerns about the findability and discoverability of online public service content in general.

Working with Government, PSBs, ISPs and other partners, the BBC could also play an important role in helping bridge the digital divide. While direct financial benefits to the PSBs are limited, this activity could bring real benefits to the cultural and creative sectors, as well as important social and citizen benefits.

EXPLOITATION

Partnerships with BBC Worldwide

BBC Worldwide has begun to explore ways of using its global scale and product diversity to create opportunities with other PSBs. Initial analysis undertaken by Channel 4 and BBC Worldwide indicates that partnership opportunities across a range of business areas could potentially generate benefits worth £10-20m of net value per annum after a number of years of development, with the potential to generate up to a further £20m by working with other parties.

ENABLING PARTNERSHIPS

The partnerships described above could be supported by a number of enabling contributions from the BBC, including doing more to share the outputs of its research and innovation, training and audience research.

BEYOND PSB

Partnership proposals could bring benefits to organisations and institutions beyond the PSBs, with those around digital production, research and innovation, training and audience research available to all in the industry. The BBC's broadband proposals would also bring broader benefits, including through greater online linking to public service content; syndication of BBC content to newspapers and others; strong partnerships with the cultural sector; and support for the DAB digital radio platform.

FINANCIAL BENEFITS

Initial modelling by Deloitte indicates that by 2014 the partnerships explored in this document (including the BBC Worldwide partnerships modelled separately) could generate over £120m of annual benefit to PSB beyond the BBC compared to a scenario without them. This annual benefit would represent a combination of new revenue, avoided loss of revenue, and avoided or reduced cost. The ultimate benefits of these proposals will of course depend on their exact design and implementation, including more detailed discussion with partners about the nature and scale of the benefits.

Part I Meeting the challenge of sustainability

Around the world, broadcasters are wrestling with the challenge of digital migration. It demands new thinking and new strategies but also substantial investment in new technologies and platforms.

But most broadcasters' current business models are under attack from audience fragmentation, new digital competition and pressure on advertising. Many investors and stakeholders are sceptical of their ability to survive, let alone to justify substantial fresh investment. And now structural pressures are being exacerbated by the global downturn.

This is the situation in which all the commercially funded PSBs find themselves. It is why Ofcom rightly identifies a threat to the sustainability of plurality in UK PSB.

But the UK broadcasting market has a unique feature: the presence of the BBC with a public funding model which is secure; with a strong heritage in developing and implementing new broadcast technologies and standards; with proven success in its own digital migration; and with significant scale across media at home and—principally through BBC Worldwide—around the world.

We believe that it is possible for the PSBs working together to develop a shared digital environment encompassing research and development, digital production, content distribution in the UK and exploitation around the globe. The aim would be significant economic benefit to existing commercially funded PSBs, both through reduced costs and enhanced revenues. This is a strategic rather than a tactical response to the problem, intended to provide a pathway for PSB all the way through linear television switchover into a high-speed broadband-enabled UK; and one that can continue to add value even if the set of non-BBC PSB players, indeed the whole way in which we think about the provision of socially or culturally valuable content beyond the BBC, changes radically.

The BBC and digital

Over the past decade, and often in partnership, the BBC has continued to meet its purposes by moving into digital media. The results (including BBC Online, Freeview, Freesat, the iPlayer, BBC HD, and the BBC's multiple digital mobile services) have exceeded our own and many others' expectations.

Freeview, Freesat, the current work which the BBC and ITV are doing on internet-connected TV—all are examples of the BBC working with other broadcasters under governance arrangements that place it on an equal footing with its partners and in which its financial and in-kind contributions are quantified. Although the BBC's historical reputation as a partner has not always been a strong one, there is a recent and growing track record of partnerships that have worked as well for the partners as for the BBC. Most important of all is the fact that these partnerships—by bringing the UK's broadcasters together—have delivered public value by offering audiences open, simple-to-use, common digital standards and platforms.

Nor is this new. For decades—from the fundamental standards on which UK analogue radio and TV was based to PAL, Teletext, NICAM stereo sound, DTT and the web—BBC

Research and Innovation has created standards and technologies that have been made open and freely shared with the rest of the industry.

In recent years, we have begun to use the partnership principle and the notion of sharing technology and infrastructure more widely. To take one example, the BBC's current Out of London strategy has partnership—both with other broadcasters and with many other stakeholders—at its core. We know that establishing a critical mass for the broadcast and wider creative industries is challenging in the UK's other major cities. Projects like Pacific Quay in Glasgow and Media City in Salford were conceived as partnerships from the outset, both so that other broadcasters could defray costs by sharing facilities but also so that, working together, we could help create and sustain a critical mass of talent and work for the success of the broader creative industries.

Helping achieve sustainability for PSB beyond the BBC: three tests

1: The first test that any attempt to help sustain PSB beyond the BBC must meet is that it is strategic: in other words, that it is not just a temporary plugging of a hole, but that it offers a good chance of promoting PSB sustainability in the long term and can be made flexible enough to adapt to significant and unpredictable changes in technology and the structure of the UK content market. However, a solution that is so long term and 'strategic' that it offers no immediate support to existing PSB provision would also be inadequate.

One advantage of sharing a package of developing technologies, infrastructures and brands is that, in a first phase, it could begin to deliver tangible benefits almost immediately (with the flow beginning before the end of calendar year 2009), and could develop into a second, fully strategic phase over a horizon of seven to ten years.

2: The second test is one of deliverability and accountability. The elements in any package of partnership proposals cannot be 'offers' which could be withdrawn or watered down by the BBC at some point in the future: they must be fresh obligations on the BBC, and the BBC's performance in meeting those obligations must be subject to objective and open scrutiny.

The governance structures for the elements of the package must formally recognise an appropriate sharing of control within which all of the parties—including the BBC—must operate. In the case of opening up and sharing the iPlayer with other PSBs, for instance, we envisage a standard-setting association, broadly analogous to the existing model for Freesat and the BBC's role in DTT, on which the BBC would have a minority of votes.

An inevitable feature of a partnership model is that it does not guarantee funding as straightforwardly as a direct subvention of public money (although other privileges currently in use in the PSB system, for instance spectrum, are also difficult to quantify, predict and guarantee). There will be challenges in measuring value, moreover, first because different parties may either overstate or understate the value that is being derived; and because many of the elements of the package, if implemented, would mean comparing the partnership model against one or more counterfactuals.

However, we believe that regular, credible, independent valuation will be possible. The critical question—*is this approach significantly helping to sustain PSB beyond the BBC?*—is one

that can be periodically and exhaustively addressed within current processes, notably Ofcom's PSB Review.

Good partnership must incentivise its parties to make the most of the opportunities available to them. Importantly, the partnerships outlined in this document leave the current objectives, incentives and culture unchanged within each PSB—ITV remains ITV, Channel 4 remains Channel 4 and so on. A sharing of technology, standards and infrastructure, but with the creative 'mind' and editorial character of broadcasters (and of potential new players) unaffected.

3: The third test of any proposed solution is one of fairness and compliance with relevant rules: how does the solution match up in terms of market impact, competition law and the question of state aid? This document does not purport to address these issues, though advice has been sought and will continue to be sought as required. The BBC Trust, as the sovereign body of the BBC, will undertake all due consideration of these proposals with appropriate consultation and collaboration.

It is worth noting that the principle of the BBC creating standards and technical infrastructure, and of its name and brands being used to support the wider public policy objective of digital take-up, is implicit in the sixth public purpose under the Charter and is already well established and regarded as a success. The notion of the BBC prioritising working with other broadcasters with specific PSB objectives and obligations is manifested in many existing initiatives (Freeview, Freesat, HD on Freeview, *et cetera*) and conceptually makes good sense. PSBs operate free-to-air models and have obligations in statute and under Ofcom regulation which are similar to the BBC's, meaning that they are often the most appropriate partners in a range of projects. The BBC should see its partnership proposals in a wider context: one in which it also looks at ways of partnering with and opening up some of its content and technology to the whole media sector, both at UK and at regional and local levels.

If supported by partners and other stakeholders then, with further work and refinement, the BBC is committed to implementing these partnerships as quickly as possible within its existing funding agreement. The additional costs could, with significant reprioritisation by the BBC, be met within current resources and are likely to average around £20m per annum over the period 2009-2013. However, this investment could be the springboard for benefits many times that amount per annum by 2014.

The financial benefits of the partnership proposals have been reviewed by Deloitte, who have developed a model to assess and quantify their impact. Deloitte's initial modelling shows that, around 2014, the proposed partnerships (including the BBC Worldwide partnerships modelled separately) could generate over £120m of annual benefit to PSB beyond the BBC over-and-above what would have been achieved without partnership—that is, in a combination of new revenue, avoided loss of revenue, and avoided or reduced cost. The nature and scale of these benefits requires further work with partners to refine.

The rest of this document summarises each proposed partnership area in turn.

Part II The partnership proposals

1 Digital production

The current acute challenge of driving greater efficiency is combining with one of creative re-invention, particularly around the need to produce content not for a single medium but for multiple platforms and devices. Somehow, despite economic pressures, PSBs have no choice but to gamble on new forms of creativity on nascent platforms and devices, the economics of which are unproven but on which their future may depend.

Technology offers some of the answers. Existing processes required for content creation can be streamlined, automated and made more efficient. However, cultural change is also required alongside the application of emerging technology to stimulate new forms of creativity and deliver additional efficiencies.

The industry is responding to the challenge in different ways. Size clearly matters: determining both the potential prize and how quickly it can be won. Large production houses are investing to drive out inefficiency from their own processes and from suppliers. But with different approaches and different technologies, even those who move quickly risk becoming one of many 'digital islands': unable to use agreed sets of open standards and technologies. Meanwhile, the benefits feel intangible today for smaller independent producers; investment in IT carries an opportunity cost in development effort. A digital divide in the UK production industry is opening up, with much of the industry shut out of the opportunity of multiplatform content and in danger of becoming uncompetitive.

The BBC has developed a deep understanding of production workflows and invested significantly in a technology solution which it believes will prepare its non-news production base for multiplatform content creation. The cost of this production technology is also repaid over time, thanks to increased efficiency in the entire production process, in particular through fewer and more effective editing cycles.

Building on this understanding, and in collaboration with others, a partnership of PSBs and independent production companies could be formed to create an open, digital production platform underpinned by a set of common standards for sharing content. Codecs, metadata and internet connectivity would allow content to be collaboratively shared between producers, editors, post-production and broadcasters without costly transcoding, couriers, formatting and storage in multiple formats.

This common digital production platform would bring together the UK's creative industry and technology vendors, offering online 'software as a service' which adheres to agreed industry standards, including:

- *A digital archive tool*: creating a shared repository for the industry allowing content to be easily stored and accessed by producers and broadcasters
- *A digital production tool*: enabling new material to be combined with archive material and moulded roughly before craft edit begins, and which allows content development to be shared by producers, editors and others.

These services would not be constrained by geographical boundaries: a small independent producer working on a commission in Scotland could save money by paying to re-use rushes recently shot by a different production team in London rather than reshoot that material. Craft edit and graphics could be delivered via service providers on the platform with multiple remote online review points. Finally, the finished product could be delivered digitally in file form to the commissioning broadcaster, conforming to agreed standards and ready for cross-platform publication.

This vision for UK production would require a significant evolution of the broadband capacity in the UK. However, in the short to medium term, the partnership could rapidly agree common standards and pilot cross-industry collaborative working on a small scale. Within the partnership, the BBC would act as a trusted, non-commercial party, applying its Research & Innovation function to digital production.

The BBC could also share its unique new data communication network that connects the BBC's major creative hubs in the UK including Salford, London, Bristol and Cardiff. Smaller independents could enjoy many of the benefits of digital production by 'plugging in' to services provided at one of these connected creative hubs, removing some of the delays and knock-on costs of network congestion.

Financial benefits would take a few years to develop. Overall, these arise from the partnership acting as catalyst of an industry trend towards common standards that today is just beginning. Specifically, the benefits come in a range of areas.

First, a partnership approach to digital production—kick-started with know-how from BBC development efforts—will de-risk industry investment in technology. Second, there are efficiencies in the end-to-end production process right through from ingest to output, with particular scope for efficiency in craft edit. These efficiencies will produce benefits to production houses of all sizes, even small ones that find it difficult to invest in digital technology. Third, the technology also creates the ability for producers to create programmes or replace parts of their programmes by reusing archived material, hence reducing costly re-shooting and re-editing. (These benefits are estimated to be above and beyond those which would occur in the marketplace without partnership.) Rights payments arising from content re-use or secondary exploitation are difficult to estimate and would be in addition to these figures.

2 Regional news

Ofcom's PSB Review has highlighted the risk to the continued provision of Nations and regional news; an area currently served by both the BBC and ITV as well as the regional press. The Secretary of State for Culture, Media & Sport, Andy Burnham, has identified regional news as a priority and suggested that the BBC's relevant facilities could be shared with others to reduce the costs of sustaining multiple provision.

The BBC remains committed to comprehensive Nations, regional and local newsgathering across the UK. We have been exploring ways of making some of the BBC's Nations and regional news materials available to other news outlets in ways that would not undermine

diversity or compromise editorial independence. We are considering a range of potential ideas and delivery models, including the following.

- At present the BBC gathers a large amount of audiovisual content for use in its regional TV news programmes. Some of this content is non-exclusive to the BBC: for example 'diary' events. Editorial and journalistic value is added to these pictures later on in the production cycle through insight, interviews, additional content and story-telling, providing a distinct editorial take on common stories. We are exploring options to share this raw news material more widely, in ways that do not reduce plurality or editorial independence. In addition, the BBC is examining whether it could take on greater responsibility for 'live' regional newsgathering resources.
- There is a significant opportunity to develop a partnership to share regional news infrastructure. In most cases, regional news facilities are duplicated, covering very similar parts of the UK. In the medium- to long-term, the BBC could share infrastructure and broadcast facilities to reduce this duplication. This could enable economies of scale and efficiencies in the building and fit-out of the new centres and in the on-going operational costs. Editorial / journalistic functions would remain separate. There could also be opportunities for co-location among smaller newsgathering bureaux.

Further work remains to understand the feasibility and scope of regional news partnerships, including how delivery models might be designed to maximise the value created. The obvious partner for the BBC in this area is ITV, as the designated provider of PSB regional news. The benefits could potentially accrue to other providers of local and regional news beyond ITV, were obligations or providers to change, and would continue to benefit regional news as it evolves.

A key challenge to this partnership might be the threat of reduced competitiveness between providers and therefore the plurality of regional news. However, by establishing safeguards and systems to ensure appropriate separation, these risks can be mitigated and public value delivered, including by,

- Expanding the volume and choice of news material available, creating the opportunity for more diverse and differentiated coverage
- Sharing content, allowing new players to enter the local news market, e.g. by reducing the barriers to entry for local newspapers' online operations
- Creating large regional news centres facilitating, over time, the participation of other partners such as educational, community and training bodies.

Financial benefits would be driven in a number of ways, including property lease, fit-out (such as studios, edit suites and production suites) and technology (such as production systems). In addition, shared operations could reduce running costs.

Regional news partnerships clearly raise complex operational issues and further discussions are needed to design the best model for delivery. It will also be necessary to design solutions that are sensitive to the wider market while preserving the public value benefits.

3 Sharing the iPlayer

The BBC iPlayer, launched on Christmas Day 2007, has been phenomenally popular with audiences, with over a million programme requests a day. Although it is currently restricted to BBC TV and Radio programmes from the past seven days, it is already the second-most widely used long-form on-demand service in the world.

The iPlayer has been a success because of the BBC's scale, its strengths in technology research and development, and the high level of trust placed in BBC-backed services. In its consultation document of September 2008, Ofcom described the possibility of the iPlayer being opened to PSB more widely.

If it is considered useful and if it is what the other PSBs would like, then the BBC is ready to share the iPlayer technology and brand—making the iPlayer a platform to find and view not just great BBC programmes, but wider PSB content.

The BBC's public service content (the seven day catch-up service for the output from BBC Television and Radio), would continue to be offered in a wholly non-commercial environment, without any charge or advertising or any other form of commercialisation. Partner PSBs, however, could use the same technology and user experience to support their own branded, independent on-demand service commercialised through advertising or by other means.

One possibility is that participants' local sites could be linked directly with each other, though page links, and via a common central site featuring links to each participant's content side-by-side. The central site could in effect be a common gateway or electronic programme guide for on-demand, with users moving seamlessly to individual sites to consume content. With audiences able to find on-demand content more effectively, the reach and impact of niche and targeted PSB could improve—going some way to address Ofcom's valid concern about the findability of a wide enough range of public service content online.

There are many important questions still to explore with the other PSBs. How could a common iPlayer platform be set up and governed? One idea is an association which would be open to all the PSBs and on which they would all have votes, but there are other possible models. We would see this idea being compatible with other PSB partnerships including Kangaroo, to which the BBC and other shareholders remain committed.

An iPlayer partnership would complement two other proposals in this document. By sharing the BBC's digital production technology with producers and broadcasters, the PSBs would be able to create an industry that better supports multiplatform production with content ready for cross-platform exploitation on the new service. Another related proposal is internet-connected television delivering on-demand viewing, including the iPlayer, to the living room.

For the moment, the iPlayer idea remains just that and we will pursue it if other PSBs decide that they wish to.

4 Internet-connected television

The BBC is creating a standards-based open environment for internet-connected televisions, working closely with ITV and in discussion with other PSBs and industry partners, including BT. This standard would be promoted to offer the consumer an integrated broadband and broadcast free-to-air television service, accessed through a single, simple user experience available initially via a set top box. The proposal would:

- Offer audiences existing free-to-air radio and television services, including high definition
- Bring on-demand video, audio and web-based content like iPlayer to the television set
- Enable localised, personalised content experiences
- Enable third parties to bring their on-demand and interactive propositions to a broad audience
- Provide a simple, consistent user experience which has industry-leading accessibility built in.

Without this evolution, the currently successful UK free-to-air platforms face an uncertain future. Freeview in particular lacks an upgrade path to IP. While existing pay providers offer a limited range of IP-connected television services, these are typically within closed, subscription-only environments and often tethered to broadband packages from the same provider. This creates three challenges for the PSBs: firstly the traditional free-to-air Freeview platform will become less attractive as consumer expectations change; secondly, commercial gateways may become a barrier, technically and commercially, for the PSBs' non-linear content and services; thirdly, PSBs' audience share is highest on free-to-air platforms such as Freeview and any shift towards alternative platforms is likely to result in lower audience share and revenues.

This proposal is also intended to build on the current plans for the transition of digital terrestrial television to high definition beginning in late 2009. The combined standard would be available to all set-top box manufacturers and could be adopted by any UK television service provider.

Any consumer proposition would be built on the same principles as current free-to-air platform ventures: simple to understand, an open model for content providers and a single consumer payment for the box. The resulting service could be made available by any ISP able to support a quality video service. Discussions with potential partners are already underway and there is enthusiasm for this partnership from a number of other potential participants.

Public value would be driven in three key areas:

- *Increased choice and control* for audiences via the TV screen, with the full range of on-demand and interactive content made available to the TV screen, from family photos on photo-sharing websites, to short-form user-generated video content through to long-form TV shows, films and archive content
- *Access to the TV set* for other parties that deliver public value: by creating an open IP-based platform on the TV set, arts, community media, educational organisations and others could reach much larger audiences with their content

- *Access to innovative forms of existing content:* over time, an internet-connected TV platform would support new editorial propositions. Content could become personalised and localised. Video could be integrated into text-based news services (e.g. localised headlines, weather and travel), whilst genres like Children's could tailor services to enable more advanced interactivity.

The financial benefits of a widely adopted open standard would accrue in a number of ways. For instance, there would be increases in video-on-demand usage, with associated advertising and other revenues. However, there are also significant financial benefits from supporting an open, competitive free-to-air platform where PSB audience share remains high.

5 Broadband Britain

By 2012, it is likely that around 20% of the population will still be unconnected to the internet. By working in cooperation with Government, PSBs, ISPs and other partners, the BBC could play an important role in helping bridge this digital divide: by using outstanding content, comprehensive public information, and pan-industry coordination to drive take-up and to encourage the last cohorts of British households to join the broadband revolution and enjoy the best online content.

There are four areas in which the BBC and its partners could have a significant impact:

- Making the internet relevant for people who are not yet connected by providing attractive content, including video-on-demand, focused marketing and media information campaigns
- Helping people feel more confident online by building on the BBC's digital literacy campaigns
- Improving discoverability by driving recommendations and click-throughs to other websites from the BBC's website
- Using BBC content to support other public service institutions, such as museums, the NHS and other media organisations.

These proposals could bring a number of potential public value benefits:

- Through increased take-up and media literacy, the digital divide could be reduced with greater numbers of people taking up broadband-enabled services
- Access to public service content both online and offline would increase, with greater traffic to partner sites, such as the NHS, museums and galleries or to community media
- Higher traffic to commercial PSBs would increase the reach and impact of their content, and would increase online revenues.

6 Partnerships with BBC Worldwide

BBC Worldwide has begun to explore ways of using its global scale, product diversity and leverage to deliver stronger global revenues to other UK PSBs. Over the last few months, in-depth discussions with Channel 4 in particular have identified a number of promising opportunities. These early discussions have included an independent analysis of each business' capabilities across all divisions, interviews with divisional heads and reviews at Chief Executive level. An external consulting firm, CapGemini, has acted as an impartial intermediary synthesising and validating the input from Channel 4 and BBC Worldwide.

The analysis of relative capabilities reveals a number of ways in which the strengths of one business could be used to complement the other:

- BBC Worldwide has strengths in rights management, magazines, digitisation and international production and distribution
- Channel 4 has expertise in advertising, idea creation, reaching commercially attractive audiences, operating a strong portfolio of brands (Channel 4, E4, Film 4, More 4 and 4Music), cross-promotion, UK content exploitation and consumer products
- Both businesses have strengths in developing formats and talent.

A number of partnership themes have emerged from this analysis, building on some areas of relative strength. However, due to the commercial sensitivity of these proposals details remain confidential.

We would envisage a portfolio management approach to the series of business initiatives to help cement the working relationship. Both BBC Worldwide and Channel 4 believe that this would need a more substantial, deeply rooted, partnership between the two organisations. However, any meaningful collaboration between the PSBs and BBC Worldwide would need support from Government and regulators.

There are public value benefits to these proposals: BBC Worldwide-PSB partnerships would strengthen international distribution channels for UK-created content, contributing to the BBC's global purpose and increasing the impact of the UK's creative industries on the world stage. Joint format development and content aggregation would support the creation of new UK programming and stimulate the UK creative industries.

However, the primary benefits to BBC Worldwide and Channel 4 will be financial. Initial analysis undertaken by Channel 4 and BBC Worldwide indicates that partnership opportunities across a range of business areas could potentially generate benefits worth £10-20m of net value a year after a number of years of development, with the potential to generate up to a further £20m by working with other parties. The relative value returned to each party differs per opportunity and full analysis of the investment required needs to be undertaken—however, the value is likely to be attributable 60:40 to Channel 4 and BBC Worldwide respectively. There are significant implementation hurdles, some of which are dependent upon external factors beyond the control of either party and therefore the benefits range is highly indicative with further work required to validate the opportunities.

7 Enabling Partnerships

The financial benefits to PSBs from these enabling partnerships are relatively modest. However, the public value benefits are sizeable, with broadcasters benefiting from technology research, audience insight tools and training that the BBC has spent years developing and will be continuing to support in the years to come.

Research and Innovation

The BBC's Research and Innovation department undertakes research and development across the media production chain, from increasing creativity and reducing costs in production, innovating around media management and archiving, supporting distribution across all platforms, to the development of new interfaces, formats and interactivity. Increasingly, this work has expanded from traditional broadcast platforms to internet technologies as the media environment has evolved. The majority of significant developments in broadcast media over the last century has been influenced by the group's work.

This world-class capability and heritage is defined by the unique nature of the wider BBC:

- i) Longevity—R&I's involvement in technology advancement takes place over a very long time horizon without the restrictions of a commercial pay-back period. This has allowed it to build up deep expertise that could not easily be re-created elsewhere, and to undertake research into areas or at times that may not have been commercially viable but that have ultimately delivered significant commercial value
- ii) An industry-wide remit—by deploying an approach that is designed to benefit the overall industry the research output has helped to create technologies that achieve wide consensus and facilitate developments by a wide variety of companies
- iii) Impact—by linking the research and development expertise to the wider technology and editorial communities within the organisation, R&I's work benefits from being relevant to broadcasters and developing international markets in line with UK interests.

R&I work on behalf of the wider industry, preferring open standards and publishing most of their research output (see <http://www.bbc.co.uk/rd/pubs/latest/index.shtml>). They therefore take on a significant proportion of the industry investment in research and innovation. Without this investment, it is likely that PSBs would have had to share many of these costs (though as the BBC already shares these benefits they have not been counted in the overall benefits to PSBs from the new partnership proposals). This research has also allowed the broadcasters to achieve more for less, for instance by developing compression technologies that increase spectrum capacity or by the use of common standards.

In the future, BBC R&I will build on this heritage to take a central role in defining the new world where internet and broadcasting technologies meet on behalf of the other broadcasters. Research efforts will be refocused and expanded to have an impact along the whole value chain. Placing BBC R&I in this role will support the collective efforts of broadcasters at a time when they, and others, are struggling to fund long-term initiatives. The BBC's track record here shows how this approach can act as a multiplier to the other benefits of partnership and bring real value to the whole media sector.

Audience Research

Audiences are fragmenting and becoming more difficult to serve; they are engaging with PSB content on different platforms and in different ways. To understand audiences better, the BBC has invested in a number of bespoke tools and surveys and we believe that sharing these with other broadcasters would create better programming and greater insight into audience behaviour.

There are four audience research tools that the BBC believes could bring real public value benefits if shared across the industry:

- *Cross Media Measurement*, which would allow PSBs to gain an understanding of multiplatform consumption through a detailed and unified survey of programme-level data for TV and radio programmes (live and recorded), site-level internet data and mobile and red button usage
- *Pan BBC Tracking Study (PBTS) data*: a monthly survey where audience views of the relative merits of different TV channels could be made available to other broadcasters
- *The Pulse*, where every day around 5,000-8,000 respondents provide information and opinions for up to three randomly selected programmes across all channels. Respondents are also encouraged to provide verbatim comments, providing additional insight into audience tastes
- *Service Licence Tracker* which evaluates each BBC service against at least one competitor service, where possible. Other services could be added to make it a syndicated survey, helping to deliver better audience insight across the industry.

Industry training

The BBC makes a substantial contribution to the training of a skilled media workforce across the audiovisual industry. Firstly, the BBC trains staff who may go on to work elsewhere, and secondly it provides face-to-face training direct to freelancers and organisations in the industry.

However, the traditional way the BBC has delivered training is changing. The workforce is increasingly mobile, leading to a more flexible and transferable approach to skills development. There is a heightened emphasis on compliance and legislative training and a growing call for access to core learning 24 hours a day, 365 days a year.

The BBC is currently exploring ways in which it can deliver against these changing needs, both internally and externally. While mindful of the BBC's obligations under fair trading rules, we are exploring proposals to enhance access to training for people who are moving around within the industry by upgrading our current external training portal (bbctraining.com). Our aim is to build increased functionality that will allow users to book both online and face-to-face courses and track their BBC training record through the system. This will be a valuable tool in an industry with such a fast-changing and mobile workforce.

8 Partnership beyond the PSBs

The primary focus of the partnership proposals so far has been to tackle the issues facing public service broadcasting highlighted by Ofcom. After discussions with other PSBs, we believe that these proposals represent a transformative set of partnerships that would prepare broadcasters for the digital future and safeguard the delivery of PSB programming for years to come.

However, an additional advantage of the partnership proposals is that they bring benefits to organisations and institutions beyond the PSBs. In a number of areas, partnerships could have a beneficial impact on UK media across the board:

- *Digital production*: this partnership will bring real advantages to the UK production sector as a whole. Independent producers will be better prepared for the digital future and able to operate with greater efficiency. All broadcasters who purchase from independent producers—not just the PSBs—will benefit from being able to commission from more streamlined, digitally enabled and multiplatform-ready producers. As a major exporter of ideas, formats and programmes, the UK will benefit greatly from making its content findable and ready for exploitation on a local and global scale
- *Regional news*: the sharing of news materials could benefit not just regional broadcasters but also other regional and local news providers, although the impact on other picture providers will need to be carefully assessed. At a time when many of these providers are making their own transition to digital delivery, the BBC's willingness to share its news materials could help lower barriers to entry and encourage the production of rich audiovisual content on local sites
- *Broadband Britain*: the BBC has already committed to increasing links from BBC Online to sites across UK media, from PSBs to newspapers to public institutions like museums and galleries. To deliver this, we are in the process of developing broad partnerships with the museums and galleries sector and are also working closely with Creativity, Culture and Education to establish a partnership to align youth arts provision and take-up across the UK; the BBC's partnership with the Arts Council will be an important part of these initiatives. The BBC and NHS have also discussed collaborating to drive usage of NHS Choices services. As part of its on-going syndication strategy, the BBC is exploring options to share online content with newspapers and others
- *iPlayer*: the initial phase of this partnership would be with the PSBs. However, the partnership could well open out to other public service bodies with access to audiovisual content (e.g. the Tate, British Film Institute, British Library etc.). An open attitude to content syndication both to and from the service would also spread benefits more broadly across the industry
- *Internet-connected TV*: the open platform model could bring real benefits to public service institutions with audiovisual content. Non-traditional content providers could make their services available to the living room screen—whether web-based services like Flickr making home photo collections available or arts organisations streaming events live. Niche content providers, public service providers and local communities would be able to reach audiences cost effectively via the television, which would in turn encourage innovation and creativity in content and services

- *Research and innovation, training, audience research:* all these enabling partnerships would be available to the whole industry, so that broadcasters, producers, manufacturers and developers could benefit from the long-term investment that the BBC makes.

DAB

The BBC is also committed to creating a strong digital radio platform. Radio plays a vital role in delivering public service broadcasting in the UK and Digital Audio Broadcasting (DAB) provides opportunities for it to be delivered in new ways. However, there are a number of barriers to the take-up and availability of digital radio across the UK, many of which will require significant policy intervention to overcome. Primary among these barriers is the extent of geographic coverage and it is unlikely that car manufacturers will adopt DAB as standard if coverage remains patchy. Resolving the situation will require considerable investment at a time when radio broadcasters, particularly those in the commercial sector, are under increasing pressure. Commercial broadcasters do not currently have the financial capacity or commercial imperative to invest in a build-out of coverage and the status of the second commercial digital multiplex is also currently unclear.

There are a number of measures to develop the digital radio platform which could be undertaken with a coordinated partnership approach to build confidence in the DAB platform and create market momentum. These include:

- Improving the geographical coverage of the platform to reach FM-equivalent coverage, creating the conditions for greater portable consumption and higher penetration of DAB in cars
- Supporting the platform with a strong marketing effort co-ordinated across the industry
- Removing uncertainty for all industry players (broadcasters, radio set manufacturers and retailers, infrastructure providers) by creating a viable long-term business model
- Creating the conditions for technological improvements to the platform with long-term cost and spectrum efficiencies
- Offering a credible path to switchover from analogue radio.

In discussion with Government, Ofcom and broadcasters, the BBC has begun the process of developing potential options and is reviewing their relative feasibility and cost implications.

Appendix

This text, written by Deloitte, outlines the firm's work in modelling the partnerships above.

Purpose

Deloitte was commissioned by the BBC to review the potential benefits of PSB partnerships, and in particular to apply a consistent and rigorous methodology to model their impact across the sector. Our analysis has been prepared solely for the purpose of supporting the BBC in its task to respond to the challenge issued by the BBC Trust in June 2008, and should not be used for any other purpose or in any other context. Deloitte accepts no responsibility or liability to any party other than the BBC in respect of the results of this analysis.

Level of advancement of the partnership ideas

The partnership proposals have significant variations in their level of development maturity. Some have been underpinned by projects that started over a year ago, and some were initiated only a few months ago. The degree of certainty in the projections is heavily linked to the level of advancement of the partnerships.

Consistency of approach

We have used a consistent approach across all of the partnerships, and modelled the difference between what could be achieved with the partnerships against what could be achieved without: the 'factual' (partnership) scenario and the 'counterfactual' (non-partnership) scenario. We have modelled benefits net of incremental PSB costs (running costs and implementation costs), and we have also modelled a phasing from 2009 to 2016. Inevitably, the partnerships will deliver benefits at different speeds, and do not necessarily reach a constant steady state. For the purpose of giving an indication of the scale of annual net benefits, we have used 2014 as a point in time beyond any ramp-up period for the benefits, but not so far away that the numbers become too sensitive to long-term industry uncertainties. Benefits are defined in nominal terms, with an assumed long-term inflation rate of 2.5%.

Strategic value

In a number of cases, the partnership proposals have the potential to strengthen PSBs in areas that can be more important under particular market evolution scenarios: this is particularly true of the 'platform' partnerships, which can help PSBs compete for market share on digital TV platforms and on the internet. The benefits of the partnerships could therefore be significantly greater if the partnerships prevent an adverse market scenario for PSBs. To ensure a prudent approach, we have assessed scenarios reflecting only a moderate deviation from the current market dynamics and an evolutionary approach to audience behaviour. The reported benefit of the partnerships does not therefore fully reflect the potential additional benefits of mitigating severe risks in scenarios where significant market disruption occurs.

Dependencies

The benefits of each partnership are subject to a number of key dependencies. Primarily, the scope and nature of partnerships are subject to discussions with the PSB partners concerned, and so their final form may differ to that which we have modelled. Further, although we have taken state aid and legal issues into consideration when making assumptions around the allocation of benefits between the BBC and PSBs, changes to these assumptions could further affect the degree of benefit.