



Proposals for the launch of a new BBC Scotland TV channel

SUBMISSION TO OFCOM

November 2017

Proposals for the launch of a new BBC Scotland TV channel

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I Foreword

I.1 Why the BBC is developing a new channel for Scotland

From our first Director General, Lord Reith, through to the current day, the BBC has a strong, proud and long standing relationship with Scotland. The BBC is the national broadcaster for Scotland, and the BBC wants to do even more to reflect Scotland on screen. The BBC has been increasing its spending in Scotland. Last financial year our expenditure in Scotland was £233 million across all our services and platforms, an increase of 11% from the previous year.

We know that viewers in Scotland enjoy the BBC. Our television services perform better in Scotland than in the UK as a whole. In 2016/17, BBC TV channels reached 80.1% of individuals in Scotland every week and viewers in Scotland watched an average of 8 hours and 42 minutes a week of BBC TV channels. In particular, Scottish viewers have a strong appetite for BBC news with a focus on Scotland, with the BBC's *Reporting Scotland* the most watched news programme in Scotland.

However, we think there is still more to do.

Scotland is changing – politically, creatively and culturally. So there's a need for the country's public service broadcaster to respond in a way that best reflects those changes. As Scotland changes, so too must the BBC. The public policy agenda of Scotland increasingly reflects devolved power. The need for broadcast content that is both relevant and representative and speaks to – and of – audiences in a modern Scotland underpins the argument for a new BBC Scotland television channel. We should give audiences the choice of something entirely Scottish – that reflects all aspects of life in Scotland.

Therefore, on 22 February 2017, the Director-General Tony Hall announced the BBC's biggest single investment in broadcast content in Scotland in over 20 years and the launch of a new TV channel for Scotland – BBC Scotland. This new channel will start broadcasting – subject to regulatory approval – in the autumn of 2018.

We are also currently making major investments in Scottish programming across the BBC's network TV output, with a particular focus on the commissioning of drama and factual programmes. Compared to 2015/16, this

means we will be spending around £20 million extra, per year, over the three years to March 2019. This will support the delivery of our network production targets and put a greater emphasis on portraying the nation.

This document sets out the strategic context for the new channel, our detailed proposals for the channel, and why we consider that the regulatory tests necessary for its approval are met.

1.2 The BBC's proposals for a new channel for Scotland

In June 2017 we launched a consultation setting out our detailed proposals for the new channel.

There was great interest in the proposals with responses from 45 organisations and individuals – including other broadcasters, producers, writers, directors, arts organisations, and local and national government. We also held roundtable events with stakeholders.

Stakeholders were highly supportive of the creation of the new channel and welcomed the greater investment in Scotland. The proposal also received cross-party support in the Scottish Parliament. The audience research we undertook also supported the argument and need for a new channel.

This document sets out an analysis of those responses together with changes that have been made following consultation.

Vision for the new channel

This will be a channel for modern Scotland, a home for compelling, quality content that appeals to and reflects the diversity of Scottish audiences today. It will provide an ambitious and innovative destination for those seeking to see more of their lives, stories and interests on screen.

News and current affairs will be at the heart of the schedule, with a one hour, integrated news programme broadcast each week-night at 9pm, featuring international, UK and national stories, told from a Scottish perspective. Harnessing the BBC's global newsgathering resources, the news hour will offer insight and analysis to place Scotland in a global context.

The news hour and the channel as a whole will seek to widen its appeal to underserved audiences, including younger audiences, offering linked content through enhanced non-linear services including social media. The channel will form an integral part of BBC Scotland's full portfolio of services, and will work closely with network BBC channels and services to bring the best of

their content to our viewers. It will be outward-looking, co-producing or acquiring great content from around the world for Scottish audiences.

The channel will look to create close bonds with its audience, bringing high quality drama, comedy, factual, sport and entertainment programmes that will seek to inform, to educate and to entertain. The channel will offer the space for the creative sector to try new things, bringing new voices, new genres and new perspectives to broadcasting in Scotland. The additional investment is an opportunity for the sector to grow and flourish, helping to develop a sustainable training and production base for the industry in Scotland.

The new channel's core broadcast hours will be from 7pm to midnight every evening. To enable the broadcasting of live political daytime coverage (particularly *First Minister's Questions*) and live sporting and other ad hoc events the channel will broadcast during the daytime from 12 noon. This daytime coverage will amount to no more than 150 hours per year. A BBC Two simulcast will fill the schedule between and around opts programming and 7pm.

The channel will work in collaboration with other BBC television channels, particularly to enable the channel to premiere some drama and comedy. This will enable the channel to meet its ambition to schedule a wide range of programmes in the interest of audiences in Scotland.

1.3 Regulatory approval – the public interest test

Under the 2016 BBC Framework Agreement, the launch of a new channel is a material change. The BBC is required to carry out a public interest test. To meet the criteria of the test, the new channel has to contribute to the fulfilment of the BBC's Mission and promotion of its Public Purposes; the BBC has to have taken reasonable steps to ensure that the change has no adverse impact on fair and effective competition, other than that necessary for fulfilling the Mission and promoting the Public Purposes; and the public value of the proposed change justifies any adverse impact on fair and effective competition.

The BBC Board has decided that the proposal for the BBC Scotland channel passes the public interest test.

The new channel will strongly contribute to the fulfilment of the BBC's Mission and promotion of its Public Purposes especially to:

- Provide impartial news and information;

- Show the most creative, high quality and distinctive output and services;
- Reflect, represent and serve the diverse communities of the UK's nations and regions; and
- Support the creative economy across the UK.

Also, while the proposals may have a relatively small adverse impact on fair and effective competition we have taken all reasonable steps to mitigate this risk.

Taking these into account we consider that the public value of the new BBC Scotland channel justifies any remaining small impact on fair and effective competition.

Therefore, as all three components of the public interest test are satisfied, the BBC has now referred the public interest test to Ofcom for its consideration.

2 Introduction

1. The 2016 Charter and Framework Agreement (the Agreement) places a number of obligations on the BBC when it would like to make changes to its UK public services. In particular the Agreement¹ stipulates that the BBC may only make a material change to its UK public services where:
 - The BBC has carried out a public interest test on the proposed change;
 - The BBC has determined that the public interest test is satisfied; and
 - Ofcom determine that the BBC may carry out the proposed change.
2. A material change is defined to include the carrying out of any activity as a new UK public service.
3. The Agreement² also explains what a public interest test involves. Specifically the BBC must be satisfied that:
 - The proposed change to the UK public services contributes to the fulfilment of the mission and the promotion of one or more of the BBC's public purposes;
 - It has taken reasonable steps to ensure that the proposed change has no adverse impact on fair and effective competition which is not necessary for the effective fulfilment of the mission and the promotion of the public purposes; and
 - The public value of the proposed change justifies any adverse impact on fair and effective competition.
4. In addition, the Agreement also requires that the BBC, in carrying out the public interest test, must consider the scale and likelihood of any public value relative to the scale and likelihood of any adverse impact on fair and effective competition. It is recognised that the determination will require qualitative assessments to be made and that direct comparison of factors relating to public value and factors relating to risks to fair and effective competition may not be possible³.

¹ Clause 7, [BBC Agreement](#), December 2016.

² Clause 8(1), [BBC Agreement](#), December 2016.

³ Clause 8(2), [BBC Agreement](#), December 2016.

5. In February 2017 the BBC announced its intention to launch a new television channel for Scotland⁴. We also published details of our proposal in June 2017⁵.
6. Since publishing our initial proposals, we have subsequently developed our plans further, drawing on the following:
 - Feedback from our stakeholder consultations on the proposals over June and July 2017;
 - Feedback from stakeholder round table sessions we held in June and July 2017;
 - Quantitative research commissioned by the BBC from Kantar TNS⁶ and qualitative research by PAPA⁷; and
 - Analysis by Frontier Economics and Communications Chambers⁸ on the impact of the proposals on fair and effective competition.
7. This document describes the BBC's proposals to launch a BBC Scotland TV channel, the supporting evidence we have considered to inform the further development of these initial proposals, the changes we have made to our original proposals in light of our research and stakeholder feedback, and an explanation of why the revised proposals satisfy the public interest test. For reasons of confidentiality, we have redacted commercially sensitive information relating to third parties.
8. The remainder of the document is structured as follows:
 - Section 3 provides an overview of the strategic context for our proposals.
 - Section 4 describes the development of our proposals for a new BBC Scotland TV channel.

⁴ BBC [Press release](#), 22 February 2017. BBC Scotland is a working title.

⁵ BBC, [Scotland channel consultation](#), 12 June 2017.

⁶ Kantar TNS, [BBC Scotland – New Channel Public Interest Test](#), July 2017, referred to as Kantar TNS in this document.

⁷ PAPA, [Deliberative audience research for the Public Interest Test into the proposed introduction of a new BBC Scotland TV channel](#), July 2017, referred to as PAPA in this document.

⁸ Referred to as Frontier CC analysis in this document.

- Section 5 considers the public value of our proposals: the extent to which our proposals support delivery of the BBC's Mission and the Public Purposes, thus generating wider cultural and social benefits; forecasts of the likely reach of the new channel; the potential benefits to consumers of the proposals; and a summary of the costs of the channel.
- Section 6 includes a discussion of the potential impacts of the proposals on fair and effective competition.
- Section 7 concludes with an explanation of why and how our final proposals satisfy the public interest test.
- Section 8 considers the implications of our proposals on conditions set out in Ofcom's Operating Licence.

3 Strategic context

9. The BBC provides several English language linear television channels in Scotland: BBC One Scotland, BBC Two Scotland, BBC Four, BBC News, BBC Parliament, CBBC and CBeebies. BBC One Scotland and BBC Two Scotland include opt programming in their schedules – i.e. programming which is specifically of interest to audiences in Scotland instead of programmes shown on these slots in the rest of the UK⁹.
10. In addition, the BBC operates BBC Alba in partnership with MG Alba. BBC Alba is a Gaelic language service which reflects and supports Gaelic culture, identity and heritage.
11. During the Charter renewal process, the BBC made a commitment to increase investment in the nations to improve portrayal and representation (including that “*within three years, audiences in each Nation should be noticing programmes that better reflect the diversity of the UK*”¹⁰) and ensure that proportionately more of the licence fee is spent on dedicated services in the nations than today.

3.1 Changing audience context

12. BBC television services perform better in Scotland than the UK as a whole, with higher average weekly reach and average weekly time spent per user.
13. The BBC’s portfolio of TV channels had an average weekly reach of 80.1% of people in Scotland compared with the UK average of 78.8% in 2016/17¹¹. People in Scotland watched an average of 8 hours and 42 minutes a week of the BBC’s portfolio of TV channels in 2016/17. This compares with a UK average of 7 hours and 51 minutes.¹²

⁹ For example, the sports programme *Sportscene* regularly provides highlights of Scottish football on Sundays at 10.30pm on BBC One Scotland, often displacing *Match of the Day 2* which is shown on the network version of BBC One in the rest of the country.

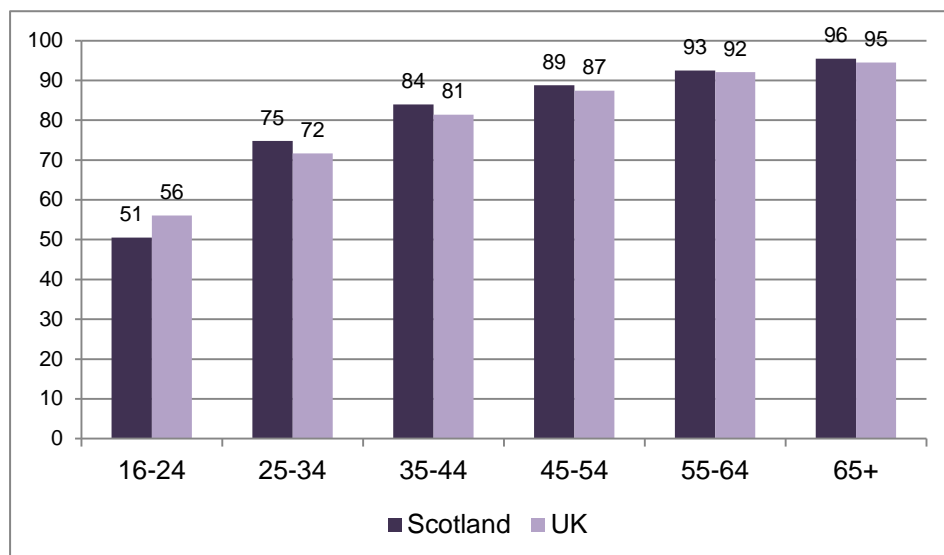
¹⁰ See p3, BBC, [The BBC in the devolved nations: progress update](#), 2016.

¹¹ Reach is defined as the number of people (aged 4+) watching for at least 15 consecutive minutes. Figures are from the BBC 2016/17 Annual Report and Accounts, based on BARB week 14 2016 – week 13 2017.

¹² Source: BARB, week 14 2016 – week 13 2017. BBC portfolio comprises BBC One, BBC Two, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament and BBC Red Button including Olympics.

14. The higher performance of TV services – as measured by weekly reach – against the UK average is true for all ages, except for 16-24 year olds.

Figure 1: Weekly reach of BBC TV services by age



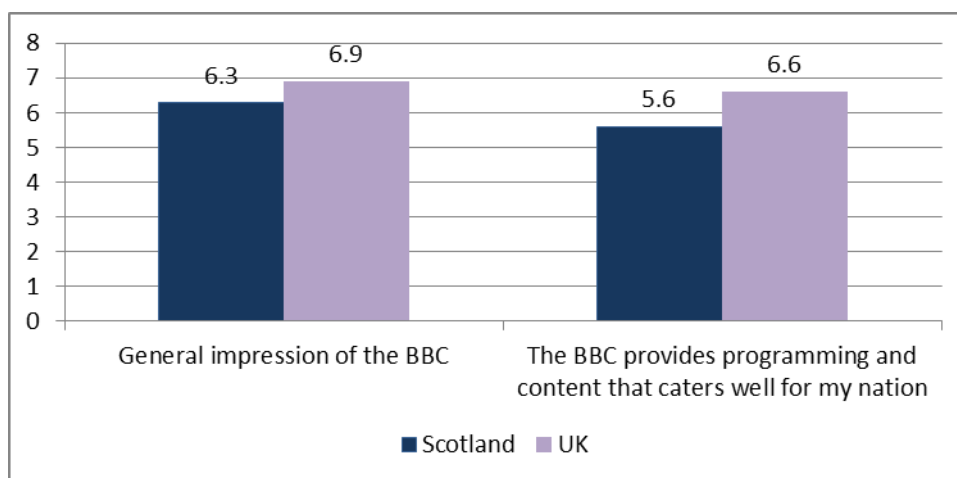
Source: BARB, weeks 14 2016 - 13 2017

15. There is also a strong appetite for news on television in Scotland. The BBC’s *Reporting Scotland* at 6.30pm is the most watched news programme in Scotland with an average 16+ audience of 470,000, ahead of *BBC Six O’clock News* (410,000), *STV News at Six* (380,000), *BBC Ten O’clock News* (320,000), and *Reporting Scotland* at 10.30 pm (300,000).¹³
16. However, audience research suggests that appreciation for the BBC in Scotland is lower than compared with the UK as a whole¹⁴. The score for “General impression of the BBC” is 6.3 in Scotland vs. 6.9 for the UK as a whole. “The BBC provides programming and content that caters well for my nation” scored 5.6 in Scotland: vs. 6.6 for the UK as a whole.

¹³ Source: BARB 2016/17, adults 16+.

¹⁴ Source: Accountability and Reputation Tracker, 2016/17 produced by Kantar Media for the BBC. Quarterly sample size - all adults 16+ in Scotland: 490+.

Figure 2: Perception measures, Scotland vs UK



Source: *Accountability and Reputation Tracker, 2016/17*

17. Audience research has also demonstrated concerns about Scotland’s representation on TV, with at least one third responding that they are quite or very dissatisfied with *“The way in which people living in Scotland today are represented on television”*; *“The way Scotland is represented on television”*; and *“That the full range of people who live in Scotland are represented on television”*.¹⁵
18. Lastly, we know that BBC opts programming in Scotland skews heavily towards the over 55s¹⁶. There is therefore a strategic need to reach out to audiences below that age group.

3.2 Changes in the political, social and cultural context

19. The BBC needs to reflect the UK and the people it serves. The new Charter emphasises the importance of this.
20. The political, social and cultural context in Scotland is changing. The public policy agenda of Scotland increasingly reflects devolved power. As a result, the news agenda in Scotland must continue to adapt to reflect these changes.

¹⁵ Source: Research conducted by TNS on behalf of the BBC, Mar 2015. Sample size 1,001 adults 16+ in Scotland. All interviewing conducted online using CAWI (Computer Assisted Web Interviewing).

¹⁶ Source: Based on BBC analysis of audience data on opts programming in Scotland in 2016.

21. The Scotland Act 2016 (implementing the cross-party Smith Commission Agreement, established after the 2014 referendum) devolved additional powers, including: aspects of welfare; abortion; equal opportunities; onshore oil and gas extraction ('fracking'); speed limits, road signs, parking, rail franchising, British Transport Police and Air Passenger Duty (from 2018).
22. This built on powers to set a new Scottish rate of income tax in the Scotland Act 2012 and the wide range of powers in the original Scotland Act 1998, including economic development, education and training; health and social services, local government and housing; law and order; tourism, sport and the arts.
23. As we reflected in our Charter submission *British, Bold, Creative*¹⁷:

"In a more devolved UK, news in some parts of the country simply does not apply in others. The politics and economics of the country is becoming more varied, the business of reporting it more complicated".

24. There is a need for additional broadcast content that is both relevant and representative and which speaks to – and of – audiences in a modern Scotland to address the concerns about portrayal and representation highlighted by the audience research in section 3.1. The new BBC Scotland television channel will help to address these concerns.
25. The commitment to a BBC Scotland channel in response to the broadcasting needs of a devolved Scotland has also received cross-party support within the Scottish Parliament.¹⁸

3.3 Growing importance of the creative industries in Scotland

26. The creative industries are important to the Scottish economy, employing tens of thousands of people and contributing billions of pounds to the Scottish economy. Figures from the Department of Culture, Media and Sport report that in 2015 117,000 people were employed in the creative industries

¹⁷ BBC, [British Bold Creative](#), September 2015.

¹⁸ [Meeting of the Parliament on 1 March 2017](#)

in Scotland, an increase of 14.7% on 2011.¹⁹ This represented 4.4% of all jobs in Scotland.²⁰ The Scottish government estimates that the creative industries had a turnover of £5.8 billion in 2014, equivalent to 4.2% of the Scottish economy.²¹

27. The statistics suggest, however, that the creative industries in Scotland lag behind the rest of the UK. Across the whole of the UK, the creative industries were worth £76.9 billion in 2013, equating to 5% of the UK economy.²²
28. The creative industries in Scotland are also growing more slowly than the rest of the UK. While employment in the creative industries in Scotland grew by 14.7% from 2011 to 2015, the rest of the UK grew by 20%.²³ This finding may be due, in part, to problems with assessing the size of the creative industries in Scotland, including the fact that the small size of many creative enterprises in Scotland means they are not captured in employment and economic data.²⁴

¹⁹ DCMS, [Creative Industries 2016: Focus on Employment](#), June 2016.

²⁰ DCMS, [Creative Industries, Focus on Employment, June 2016](#), page 12. GDP figure for 2014 taken from [Scottish Government, Publication Tables, 2015 Q4 GDP](#).

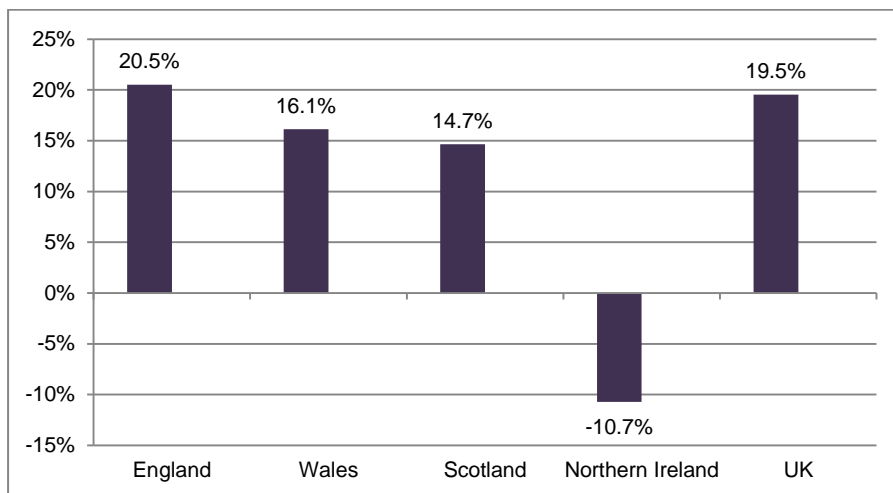
²¹ House of Commons Scottish Affairs Committee, [Creative industries in Scotland, Second Report of Session 2015–16](#), page 11.

²² House of Commons Scottish Affairs Committee, [Creative industries in Scotland, Second Report of Session 2015–16](#), page 11. Unfortunately, as the House of Commons Scottish Affairs Committee notes, the UK Government does not publish data on Gross Value Added by region or nation.

²³ DCMS, [Creative Industries 2016: Focus on Employment](#), June 2016.

²⁴ House of Commons Scottish Affairs Committee, [Creative industries in Scotland, Second Report of Session 2015–16](#), page 11.

Figure 3: Change in employment in the creative industries, 2011-15



Source: DCMS, *Creative Industries 2016, Focus on Employment*

29. The BBC's proposed investment in the new BBC Scotland channel, together with the additional investment in Scottish programming across the BBC's network TV output (a further £20 million compared to 2015/16 in the three years to March 2019²⁵) will benefit those working in the creative industries in Scotland. Not only content producers, but also programme contributors (for example, writers and directors) and others in sectors such as music and the performing arts.

²⁵ See BBC [press release](#), 22 Feb 2017

4 The BBC's proposals

30. This section of the submission provides details of the BBC's proposals to launch a new television channel for audiences in Scotland.
- First we provide a brief summary of the proposals that we announced in February 2017.
 - We then summarise the feedback we received on our proposals during the course of our research and consultations with stakeholders which has contributed to further development of our proposals.
 - Thirdly we provide a description of our final proposals for the BBC Scotland channel.
 - In the final section we set out the proposed changes to other BBC public services.

4.1 The BBC's initial proposals

31. On 22 February 2017 the Director General announced plans to launch a new channel for Scotland as part of a wider package of measures which aims to improve the portrayal and representation of Scotland on screen. The key features of the channel as announced are described in the box below.

Box 1: Summary of the BBC's initial proposals

We stated that the channel would:

Broadcast from 7pm every evening.

Provide a full mix of content to inform, educate and entertain – including its own integrated hour-long news programme at 9pm (15 mins at 7pm weekends), edited and presented from Scotland. This will lead to the creation of around 80 new posts in journalism.

Show approximately 60% of hours of first-run originations and acquisitions; the rest of the channel would be repeats.

Work in collaboration with other BBC television channels to offer additional content.

Have its own prominent EPG slot on broadcast channels in Scotland.

Be available online and on BBC iPlayer in HD in Scotland and across the UK.

Work in close partnership with the creative sector, other national institutions and other broadcasters to produce and acquire content.

Together with existing funding, the channel will have an initial budget of over £30 million.

To accommodate the proposals we also announced that we would close BBC Two Scotland, with the funding for opts programming (c£12 million) transferring to the new channel.

4.2 Analysis undertaken to inform further development of the channel

32. Since our initial announcement we have carried out a formal consultation process, engaged with many stakeholders and commissioned quantitative and qualitative market research and economic modelling and analysis. We have taken the information from our consultation and research into account in further developing the proposals for the channel.
33. In this section we summarise the stakeholder and audience feedback we received regarding the definition of the channel, our assessment of the feedback and, where appropriate, any changes we are proposing to make.
34. Overall, there was broad support for the channel, the commitment to invest in Scotland and the benefits that the channel would deliver, to audiences, to the independent production sector and to the creative economy as a whole.
35. In addition, stakeholders and audiences raised issues about the channel proposals with regard to:
 - The channel's broadcast hours;
 - The channel budget;
 - The mix of content by genre and by new runs v. repeats;
 - News provision;
 - Distribution plans; and
 - Partnerships.

Box 2: Overview of supporting evidence

Qualitative research: PAPA conducted eight deliberative workshops with 179 participants between 18 and 31 May 2017 in different locations across Scotland. Seven workshops were nationally reflective by age (participants were aged 17-86) and by all socio-economic groups, ethnicity and regional voting patterns in the Scottish Independence referendum. One further workshop was with 15 participants with a particular interest and experience of Scottish content, but who were otherwise representative. The sessions included whole group discussions, sub-group discussions with reporting back and each individual completed a detailed questionnaire to record personal views and scores on a variety of measures.

Quantitative research: Kantar TNS conducted a face to face survey of 1,038 adults aged 16+ between 14 June and 8 July 2017. Respondents were asked about their viewing habits over the last 7 days and their views on different broadcasters. They were read a short description of the channel and were asked for their views on specific features of the channel, their general impression of the channel on the basis of the value of it to them and their household, whether the channel personally appealed to them and their household and whether they had a favourable general impression of the channel and its wider impact, thinking more widely about society as a whole. Finally respondents were asked how likely they would be to watch this channel regularly and whether they would watch some specific services less if the new channel were launched.

Public consultation: The BBC launched a consultation on 12 June 2017 which ran until Tuesday 25 July 2017. The consultation set out our initial proposals for a new BBC Scotland channel and sought feedback from interested parties on:

- The extent to which the proposal contributes to the BBC's mission to serve all audiences through the provision of high quality and distinctive output and services which inform, educate and entertain;
- The benefit to consumers who will use the service, as well as the wider social, democratic and cultural impacts;
- The impact on competition in those markets affected by the proposals (including any positive impacts); and
- Whether there are changes to the proposal which in their view might enhance public value or minimise adverse impact on competition.

Stakeholder roundtables: Consultation events were held with: Scottish newspaper editors (14 June); a joint meeting of BBC Scotland's Advisory Committees (15 June); representatives from across the broadcasting industry and other interested parties (22 June); key stakeholders in the North East (Aberdeen, 26 June). The channel proposition was also discussed at a lunchtime meeting of representatives of Scotland's faith communities in Pacific Quay on 22 June. The channel proposition has also been presented to the Scotland TV Working Group (30 June), the Chief Executive of the Scottish Newspaper Society (4 July) and one-to-ones were conducted on request with PACT Scotland, PACT Nations & Regions, STV and the Writers' Guild of Great Britain.

Analysis by Frontier Economics & Communications Chambers: The BBC commissioned Frontier Economics and Communications Chambers to: (i) model take-up and usage of BBC Scotland and impacts on other BBC and other comparable commercial services; and (ii) provide an analysis of the impact of the BBC's proposals on fair and effective competition.

4.2.1 Broadcast hours

Stakeholder views

36. One respondent stated that they thought the hours of broadcast should be fixed, with clearly identified circumstances where they may be extended, as they consider the new channel is likely to take share from other channels.

37. However, the audience research suggested that many viewers would appreciate more hours of broadcast, as some raised dissatisfaction with the proposed hours of broadcast of only five hours per night.

Our decision

38. In developing our plans, and in response to stakeholder and audience feedback, we have evolved our proposals for the channel's broadcast hours. We are now proposing the channel will start broadcasting from 12 noon to ensure that audiences can continue to receive existing live opts programming that is currently shown before 7pm on BBC Two Scotland:
- *Politics Scotland*, currently broadcast on BBC Two Scotland on Wednesdays at 1430 and Thursdays at 1200 (for *First Minister's Questions*).
 - Ad hoc events (mainly sport) such as the live shinty finals which are currently shown on BBC Two Scotland.
39. Occasionally BBC One Scotland programming (for example, *Sportscene* or *Reporting Scotland*) could be displaced to the new channel if the BBC One network schedule changed at short notice (for example, due to over-running of live sports coverage). These currently transfer to BBC Two Scotland in these circumstances.
40. Any airtime on the new BBC Scotland channel between 12 noon and 7pm not required for former BBC Two Scotland live opt content would be filled with a sustaining service/simulcast of BBC Two programming²⁶.
41. The channel would then start again every evening at 7pm and would continue to midnight. On particular occasions such as Hogmanay and other special events, the broadcast hours may be extended beyond midnight.
42. Between the hours of 12 midnight and 12 noon there would be an off-air slate.
43. We recognise that the expansion of hours may pose concerns to those who would like the broadcast hours of the new service to be clearly fixed. However, we do not consider it would be practical, or in audiences' best interests, to specify every occasion when the channel may go beyond the

²⁶ We considered taking the channel off air during the times when there was no live daytime opts and showing a barker channel. We rejected this option because showing programmes rather than promotional material would increase public value.

hours of 7pm to midnight. Furthermore, the duration of programmes covering live events can be hard to predict.

44. But we are committing to a volume cap on BBC Scotland content broadcast outside of the channel's hours of 7pm to midnight of 150 hours per annum.
45. We also recognise that simulcasting BBC Two network on a channel that is aimed at audiences in Scotland could cause audience confusion. To avoid this, during the noon to 7pm period, we will use appropriate BBC Scotland branding and inserts at programme junctions to minimise this risk. This should ensure that audiences will be aware of when the new channel is on-air and when the BBC is broadcasting BBC Two simulcast content.
46. We will also ensure that continuity announcements on BBC Two in Scotland provide the correct messaging to audiences in Scotland – for example, where opt-out programming on BBC One Scotland has resulted in schedule changes and displacement of network programmes²⁷.

4.2.2 Budget

Stakeholder views

47. Some stakeholders expressed concerns that the channel's budget is too small for the ambition set out for the channel, especially with regard to high-quality drama.

Our decision

48. We originally proposed that the channel would have an annual programme budget in excess of £30 million per annum and that funding for the channel would be raised from two main sources.
 - New BBC investment partly as a result of savings across other areas of the BBC – about £18 million per year.
 - Funding that is currently used for opt-out programming on BBC Two Scotland – about £12 million per year.
49. In the current challenging financial environment we are unable to increase the programme budget significantly.

²⁷ There are at least 850 instances in a year where marketing campaigns and continuity announcements on BBC Two, would either have to be dropped or corrected for audiences in Scotland.

50. Nevertheless, we are proposing to make two changes which will impact on the channel's programme budget.
51. Firstly, we are proposing to amend the programme budget for the channel in light of the channel's expanded hours.
52. Starting the channel earlier to accommodate live day time political coverage currently shown on BBC Two (approximately 66 hours) will result in an £0.7 million increase in the channel's programme budget²⁸ per annum. The cost of the other day time opts programming (c30 hours of Sport and c44 hours of Live Events on current plans) would be funded out of the existing £12 million used for BBC Two opts programming.
53. Therefore, as a result of the change in broadcast hours, the channel's programme budget would increase from £31.6 million to around £32.3 million per annum²⁹.
54. Secondly, co-commissioning programmes jointly with other BBC services may also affect the programme budget for the channel.
55. BBC Scotland is particularly keen to work with other BBC network channels to ensure portrayal and representation of Scotland in the genres of comedy and drama.
56. BBC Scotland would like to secure a proportion of comedy and drama network commissions, particularly where programmes reflect Scotland. But as co-commissioning decisions will be made on a case by case basis, in agreement with other channel controllers, it is difficult to identify what impact doing so would have on the channel's budget.
57. When co-commissioning programmes, the established programme tariffs would apply regardless of the order in which the transmissions were used.

4.2.3 Content mix

Stakeholder views

58. Some respondents to the consultation and those participating in the audience research requested further information about the range of genres included on the channel and the level of originations. This was partly related to

²⁸ This £0.7 million is an internal transfer of funding from BBC News to BBC Scotland.

²⁹ See Table 5 for further detail.

concerns about the programme budget, and its potential impact on the quality of non-news content.

Our decision

59. In light of feedback regarding the low cost per hour of originations, we have revisited our proposals concerning the ratio of first run originations and acquisitions (60% of hours) to repeats (40% of hours).
60. We are now proposing that content mix should comprise 50% first-run originations and acquisitions and 50% repeats during the hours of 7pm to 12 midnight.
61. Under this model, on the basis of current plans, the channel would show 912.5 hours of first run originations and acquisitions (approximately 351 hours of news and 561.5 hours of non-news (of which 52 hours would be acquisitions)) and 912.5 hours of repeats between the hours of 7pm to midnight each year. In addition, the channel would show around 66 hours of day-time political coverage, plus 74 hours of sporting and other live events. However, these plans may evolve over time, partly in response to audience feedback.
62. While we appreciate that this model would marginally increase the proportion of repeats on the channel, the adoption of a 50:50 model would allow for a higher Cost Per Hour (CPH) spend on first run originations, thus increasing the quality of the channel.
63. Table I provides a notional genre mix based on 50% originations and acquisitions / 50% repeats model during the hours of 7pm -12 midnight.

Table I: Indicative content mix on BBC Scotland during 7pm-12 midnight

Genre	Hours	%
Continuing drama	50	2.7%
Factual	174	9.5%
Music	52	2.8%
News & Current Affairs	351	19.2%
Quiz/entertainment	130	7.1%
Comedy and drama	26	1.4%

Sport	78	4.3%
Acquisitions	52	2.8%
Originations/acquisitions (TOTAL)	913	50.0%
Repeats	912	50.0%
TOTAL 7pm-12 midnight	1,825	100.0%

Note: These plans are indicative and may be subject to change

Table 2: Indicative content mix on BBC Scotland during daytime hours

Genre	Hours	%
Political coverage	66	47.1%
Sport	30	21.4%
Live events – to be identified	44	31.4%
TOTAL – Daytime Hours (pre-7pm)	140	100.0%

Note: These plans are indicative and may be subject to change

64. In line with the editorial vision described in Box 3 the channel will broadcast a range of content with news at the heart of the schedule at nine o'clock each weekday alongside a mix of documentaries, specialist factual, lifestyle, music, quiz and factual entertainment programming. (See Annex 4 for some illustrative schedules). BBC Scotland will also produce coverage of sporting events. It is BBC Scotland's ambition to work with internal and external partners in seeking co-commissioning opportunities.
65. It will be important for the channel to work with other BBC networks (particularly BBC One) to ensure portrayal and representation of Scotland in the genres of comedy and drama to deliver on these content ambitions. This content may be shown in the channel in the form of premieres, repeats and co-commissions.

Box 3: Editorial vision for the channel

This will be a channel for modern Scotland, a home for compelling, quality content that appeals to and reflects the diversity of Scottish audiences today. It will provide an

ambitious and innovative destination for those seeking to see more of their lives, stories and interests on screen.

News and current affairs will be at the heart of the schedule, with a one hour, integrated news programme broadcast each week-night at 9pm, featuring international, UK and national stories, told from a Scottish perspective. Harnessing the BBC's global newsgathering resources, the news hour will offer insight and analysis to place Scotland in a global context.

The news hour and the channel as a whole will seek to widen its appeal to underserved audiences, including younger audiences, offering linked content through enhanced non-linear services including social media. The channel will form an integral part of BBC Scotland's full portfolio of services, and will work closely with network BBC channels and services to bring the best of their content to our viewers. It will be outward-looking, co-producing or acquiring great content from around the world for Scottish audiences.

The channel will look to create close bonds with its audience, bringing high quality drama, comedy, factual, sport and entertainment programmes that will seek to inform, to educate and to entertain. The channel will offer the space for the creative sector to try new things, bringing new voices, new genres and new perspectives to broadcasting in Scotland. The additional investment is an opportunity for the sector to grow and flourish, helping to develop a sustainable training and production base for the industry in Scotland.

66. All programmes would be aimed at audiences in Scotland. The content on the channel will reflect Scotland and its people but would also look outwards to the wider world.
67. The channel will aim to develop new formats, new programmes and new talent.
68. The new channel could include some existing BBC Scotland programmes, including titles that are currently broadcast on BBC Two Scotland (e.g. *Sportscene*) and either simulcasts or repeats of programmes shown on BBC One Scotland (e.g. *River City*). There may also be repeats of programmes from other BBC channels (e.g. BBC Four) or archive programmes, where that content resonates with audiences in Scotland. Some would be produced by BBC Scotland and others would be bought from elsewhere.
69. The channel will also include programmes acquired for audiences in Scotland. Acquisitions for the channel may also include those bought from other content providers (beyond the traditional independent broadcast production sector).

4.2.4 News provision

Stakeholder views

70. Some stakeholders welcomed the channel's plans for news – particularly with respect to additional news on BBC Alba.
71. However, the proposal for the channel to have an integrated news hour at 9pm prompted comments from some stakeholders.
 - Some stakeholders expressed reservations about the specific format of the news and its impact on local media.
 - Some stakeholders expressed concerns that the budget for news would leave insufficient budget for other genres, such as drama, a point that was echoed in the audience research undertaken by PAPA.
 - Some stakeholders said that the 9pm news slot could present challenges as the news would have to compete with programmes in peak-time slots on other network channels.
 - Some stakeholders raised concerns that the BBC's proposed news provision could have an adverse effect on fair and effective competition.

Our decision

72. In light of feedback on the timing and duration of the integrated news hour we revisited our proposals.
73. We considered moving the news hour to an alternative slot but dismissed this because:
 - The 9pm slot ensures that BBC Scotland is not competing directly with any UK-wide or national news bulletins in Scotland. It also complements the wider news offering by contextualising national, UK and international affairs for audiences in Scotland.
 - Scheduling the news at this time provides audiences with more choice – by offering an alternative genre to those shown on BBC One and BBC Two (e.g. drama and factual) and avoiding timeslot clashes with popular continuing dramas (such as *Eastenders*, *Emmerdale* and *Coronation Street*).
 - Putting the news in a slot adjacent to another BBC news broadcast would increase costs, due to potential operational implications.

74. We also considered shortening the news to half an hour. We rejected this option as it would reduce the benefits the hour slot is designed to produce. Furthermore, the cost savings would not be that substantial due to a number of fixed costs (e.g. deployment costs, programme production team costs and the costs associated with studio/gallery teams).
75. Therefore, as set out in our original proposals, an integrated hour-long programme at 9pm will provide comprehensive reporting and analyses of the news at the end of the day from a Scottish perspective.
76. It will draw on the best news content from network news and *Reporting Scotland*, reworking where necessary, and will include substantial original journalism from an expanded BBC Scotland specialist team. There will be scope for live interviews with newsgathering correspondents round the world and with BBC Scotland reporters and correspondents; and live interviews, also, with the day's news-makers.
77. The production team in Glasgow will work closely with colleagues in the London newsroom and in Newsgathering across the UK and the world.
78. The bulletin will benefit from a strengthened multi-platform newsgathering team and, as a result, there will be potential to produce further news output or re-version content for radio, use on the website (with particular focus on longer, more investigative pieces) and social media, allowing a richer range and depth of journalism, cross-platform. (See Annex 2 for further information).
79. This will enable an enhanced mobile and online offer through more bespoke content for the website, the BBC News app and social media platforms – including through Facebook Live with live guests; Scotland's "Videos of the Day" (previously *Ten to Watch/Newstream*); increased "slow news" analysis for the website; and more human interest content for BBC Stories³⁰. Use of younger presenters and inclusion of stories aimed at a younger demographic may also help to reduce the average age of BBC's audience for its TV news coverage in Scotland³¹.

³⁰ BBC Stories is a UK-wide BBC News brand across all platforms. It has its own section on [bbc.co.uk news pages: http://www.bbc.co.uk/news/stories](http://www.bbc.co.uk/news/stories) but also exists on third party platforms e.g. <https://www.facebook.com/BBCStories/>

³¹ The BBC's reach in Scotland for news on TV skews towards the over 55s. See Figure 33 of the BBC Trust, [Service Review: BBC nations' news and radio services](#), August 2016.

80. To provide personal value to audiences and ensure the success of the Scottish news hour, we will make it engaging and interesting and different to our current news bulletins (for example, by introducing new on-screen talent) and those broadcast by commercial channels. The new investment will also make it possible to deliver a step change in the quality of news reporting in Scotland by the BBC. To help deliver this, we have made a commitment to increase the number of roles in journalism in BBC Scotland by 80 (including production staff as well as journalists).
81. We will keep the performance of our news provision under review following the launch of the channel.

4.2.5 Distribution plans

Stakeholder views

82. Some stakeholders (particularly from the independent production sector) noted that broadcasting in SD would not be consistent with the BBC's ambition to deliver high quality content to audiences in Scotland. One noted that if the channel failed to impress on launch, winning back audiences thereafter would be an uphill struggle.
83. In addition, one respondent mentioned concerns about the potential for BBC One simulcasts using two prominent EPG slots and whether this would represent public value. They also asked whether Digital UK's policies permit the sharing of a national BBC Four EPG slot with a subnational service.

Our decision

Availability in HD

84. In light of comments about the distribution of the channel in HD, we revisited the question of HD availability across TV platforms. Specifically we considered whether we should broadcast the channel on all TV platforms in HD or whether we should broadcast the channel in HD only on the digital satellite platform. However we rejected both of these alternative options. This was partly due to significant cost implications and also to issues relating to the availability of distribution capacity required to make the channel available in HD on all platforms.

85. Consequently, as we originally stated, the new channel will be available at launch throughout Scotland in SD on all TV platforms (Freeview/YouView, Virgin Media, Sky and Freesat).
86. However we will continue to keep the availability of the channel in HD on TV platforms under review in light of further development of our pan UK HD strategy. We also note that an HD version of the service will be available via our standard BBC iPlayer app which is an increasingly common feature of many internet-connected TV platforms and internet-connectable smart TVs and set-top boxes.

EPG position

87. BBC Scotland will have as prominent a slot as possible on the Electronic Programme Guide (EPG) on all these platforms in Scotland, assuming that it is possible for the new channel to displace BBC Four to a lower slot on the EPG on all platforms. Table 3 shows further details of the highest EPG slots that the new channel could occupy on different platforms, based on the latest available information.

Table 3: Potential EPG slots for the new channel

Platform	BBC Four SD/HD current position (in Scotland)	BBC Scotland proposed position (in Scotland)	BBC Four SD/HD proposed position (in Scotland)
Sky	116*/143*	116	210* (tbc)/143*
Virgin Media	107/163	107	163/187 (tbc)**
Freeview	9/106	9	96+ (tbc)/106
YouView	9/106	9	96+ (tbc)/106
Freesat	110/107	110	170+ (tbc)/107

*Note: where there is an SD and HD version of a BBC channel available we endeavour to put the best quality version in the most prominent (lower numbered) EPG position where the platform facilitates it. *Sky HD viewers may have BBC Four HD at 116 in line with Sky's EPG policy on simulcast swapping. We note that the Sky EPG listing and the associated EPG Listing Policy has been subject to a consultation during the period in which we have been considering these proposals.** Dependent on commercial negotiations with Virgin Media. The table reflects information as of August 2017 but the slots shown may also be subject to further change partly depending upon*

whether other broadcasters launch new channels prior to BBC Scotland's launch and also on the outcome of Sky's EPG consultation.

88. The channel will also be available to the rest of the UK on the digital satellite platforms (at EPG numbers to be determined).
89. In response to the point made by one respondent about simulcasts using two valuable EPG slots, we note that, at present, we have no confirmed plans to simulcast programmes shown on BBC One Scotland on the new channel. But should we do so, the inclusion of simulcasts at limited specific times in the schedule would free up budget enabling the channel to spend more on originations. We also note that the concept of simulcasting in prominent EPG slots has existed for some time by virtue of the listing of SD and HD simulcasts of our services on the TV platforms' EPGs.
90. We also believe our proposal is compliant with Digital UK's DTT LCN Policy, in particular clause 6.1³². We are not proposing to remove BBC Four from EPG number 9 in the DTT EPG listing across the whole of the UK and to replace it with BBC Scotland, but instead are proposing to undertake the swap in Scotland only. [✂]

4.2.6 Partnership

Stakeholder views

91. Some stakeholders welcomed the proposals to work in partnership with BBC Scotland. Some supported close collaboration with BBC Alba and one stakeholder asked whether collaborations with BBC Alba would be in Gaelic. Some stakeholders representing the independent production sector asked whether the terms of trade would apply. Newspaper editors asked about opportunities, where appropriate, to collaborate on investigations and about the potential for their correspondents and reporters to contribute to BBC Scotland programmes.

³² Digital UK will permit applications to request reordering of channels under common control and in the same genre unless "Digital UK believes that proposed changes would not be in the best interests of viewers and listeners and/or the platform. For example, Digital UK may decide it would not be in the best interests of viewers for a part-time channel to move into a more prominent position and a full-time channel into a less prominent position, or for a channel that is only available to a minority of viewers to move into a more prominent position and a channel that is available to the majority of viewers to move into a less prominent position." Clause 6.1, Digital UK DTT LCN Policy v 6, publ. 3 April 2017.

Our decision

92. The channel will work in close partnership with the creative sector, other national institutions and other broadcasters to produce and acquire content. The ambition is to look beyond traditional content suppliers.
93. We are keen for the channel to work in partnership with BBC Alba (and more generally with other parts of the BBC) through cross-commissioning and co-commissioning as this will help limited budgets to stretch further.
94. Where we commission programmes from independent producers, we would use our existing business terms³³. We would also be keen to collaborate internationally with other third parties, where this is in the best interests of audiences.
95. More generally, we are keen to partner with external third parties from across the creative industries, in keeping with our Charter obligations and subject to state aid rules and our editorial priorities. For example, we would be keen to work with agencies such as Creative Scotland to identify and support new and existing television content providers.

4.3 Final proposals for the new channel

96. As discussed above we have revised our initial proposals in response to feedback from stakeholders, findings from our audience and other research and continued development of our plans. We summarise our final revised proposals in Box 4.

Box 4: Summary of the revised proposals

The new channel will broadcast from 7pm to midnight every evening. In addition the channel will broadcast during the daytime from 12 noon to enable the broadcasting of live political daytime coverage (particularly *First Minister's Questions*) and live sporting and other ad hoc events. This daytime coverage will amount to no more than 150 hours per year.

A BBC Two simulcast will fill the schedule between opts programming and 7pm.

On the basis of current plans, during the hours of 7pm till midnight, 50% of hours will be originations and acquisitions. 50% of hours will be repeats.

The channel's programme budget will be just over £32 million per full year, though the exact channel expenditure will depend upon the timing of commissioning and scheduling decisions.

³³ See <http://www.bbc.co.uk/commissioning/tv/articles/how-we-do-business>

The channel will work in collaboration with other BBC television channels, particularly to enable the channel to premiere some drama and comedy, rights allowing. This will enable the channel to meet its ambition to schedule a wide range of programmes in the interests of audiences in Scotland.

The news provision on the channel, and online, will aim to be distinctive, innovative and fresh, appealing to those audiences who are currently less likely to watch BBC Scotland's news output. It will be different to that offered by the commercial sector.

4.4 Proposed changes to other BBC public services

97. The creation of a BBC Scotland channel has implications for other BBC public services. We have included information on the main changes to other BBC services for context, although in themselves they are unlikely to be considered as being material changes to the BBC's public services and therefore do not fall within the scope of a public interest test³⁴. Nevertheless, we recognise that while these changes are unlikely to be material in isolation, they could, when considered cumulatively (i.e. alongside the launch of the new channel), have a significant adverse impact on fair and effective competition.

4.4.1 BBC Two Scotland

98. Currently, at certain times in the schedule, BBC Two Scotland opts out of the main BBC Two schedule in order to show programmes specifically targeted at Scottish audiences. We refer to these programmes as 'opts' programming' or 'opts'.
99. In 2016 the BBC broadcast c400 hours of opts programming on BBC Two Scotland, predominantly current affairs and sports programming and to a lesser extent other genres, including documentaries, soaps and entertainment.
100. Separate programming (and continuity announcements) for Scotland on BBC Two would end when the new channel launches, in light of the proposal to replace the BBC Two Scotland feed with the new BBC Scotland channel. As a result, audiences in Scotland would be able to watch the same UK-wide programmes in those slots as audiences in England. For example, last year

³⁴ See Annex I for further discussion of these and other changes to the BBC's Public Services.

Scotland 2016 was shown in Scotland at the same time that *Newsnight* was shown in the rest of the country.

- I01. There were some comments made about the changes to BBC Two, including some reservations about the loss of visibility for Scottish-produced content.
- I02. We understand our proposals may create concerns that Scottish-produced programming is promoted less, in part because closing BBC Two Scotland will mean that BBC Two will broadcast network UK continuity announcements (as is currently the case on BBC Two HD) rather than Scottish ones. For example, cross-channel promotional references to network programme output may not apply in Scotland because of opt-out content. Likewise the current ability of BBC Presentation and Media Planning teams in Scotland to reflect the audience culturally and amend network scripts accordingly will also be lost³⁵.
- I03. We will therefore ensure that, once BBC Two Scotland closes, continuity announcements on BBC Two in Scotland provide the correct messaging to audiences in Scotland; for example where opt-out programming in BBC One Scotland has resulted in schedule changes and displacement of network programmes. This measure will minimise reputational damage. It will also assist in maintaining editorial accuracy, relevance and balance across pan-BBC promotional campaigns.
- I04. Starting the channel earlier to cover live political programming and other events will also offer promotional opportunities for the channel's evening programming pre-7pm.

4.4.2 Changes to BBC Four

- I05. BBC Four would move to a less prominent slot on the EPG in Scotland, though the exact position of the displaced service (be that BBC Four SD or BBC Four HD) is still subject to confirmation.
- I06. In line with Digital UK's recent statement³⁶ on DTT (Freeview and YouView) we are able to use the EPG slot currently occupied by BBC Four SD in Scotland for the new channel. BBC Four SD in Scotland would then move

³⁵ There are at least 850 instances across a year where marketing campaigns and continuity announcements on BBC Two would either have to be dropped or corrected by Media Planning and Continuity for audiences in Scotland.

³⁶ Digital UK, [Reorganisation of the DTT LCN Listing and changes to Digital UK's LCN Policy](#), 2017, p25.

down the EPG, to take the highest available slot that is available at the time. Table 3 (see section 4.2.5) shows the highest slot that is currently available for both the new BBC Scotland channel and BBC Four SD in Scotland on DTT, but if other new channels launch, then the slot allocated to BBC Four SD would be higher than that shown. This also applies to the Freesat EPG slot.

107. The table also reflects the highest possible positions that might be available to BBC Four on other platforms as of August 2017 and in compliance with platforms' relevant EPG policies. As some of these positions are still subject to agreement with the relevant platforms, actual positions available may differ from those shown.

4.4.3 Additional benefits for BBC Alba

108. The new channel will support the delivery of extra programmes for BBC Alba. This is because cross-commissioning opportunities could lead to the provision of up to an additional 100 hours of non-news content each year on BBC Alba.
109. In addition, investment in the new integrated news hour on BBC Scotland will unlock an opportunity for weekend news programmes on BBC Alba, providing up to an extra 26 hours a year.

4.4.4 Additional benefits to BBC Online News

110. The BBC's online news pages will benefit from more distinctive longer form, bottom-up investigations into Scottish issues.
111. Examples of these and the type of material which could appear on the website are:
- *Dog Factory*. This investigation resulted in a [one hour television documentary](#) shown on BBC One Scotland. There have been repeated follow-up stories on the website³⁷ and [shorter educational videos](#) were produced for easier distribution on [social media](#) and to increase engagement with younger audiences.

³⁷ <http://www.bbc.co.uk/news/uk-scotland-south-scotland-37939800> and <http://www.bbc.co.uk/news/uk-scotland-south-scotland-41160005>.

- *Fife's Child Killings*. The investigation resulted in a [one hour television documentary](#) shown on BBC One Scotland, and [extensive coverage](#) on the website. The BBC also packaged the output in [different formats](#) and used social media to aid engagement with younger audiences.
- *Humans for Sale*. This investigation resulted in a one hour [documentary](#) shown on BBC One Scotland. This was combined with coverage on the [website](#) and [shorter videos](#) for easier distribution on YouTube.

5 Public Value Assessment

5.1 Introduction

112. In this section we present our assessment of the public value that the proposed BBC Scotland channel will generate. Our analysis is in line with the approach set out in BBC’s policy on material changes³⁸ and Ofcom’s guidance on assessing the impact of proposed changes to the BBC’s public service activities³⁹.
113. The Charter and Agreement requires the BBC to ensure that the overall benefits of decisions relating to the fulfilment of the mission and public purposes, such as material changes, outweigh the overall costs⁴⁰.
114. We therefore considered the following issues in our assessment:
- How the proposed BBC Scotland channel will contribute to the BBC’s mission and public purposes, i.e. the value that the proposal will generate for society as a whole. In this document we call this “social value”;
 - The extent to which the new channel will be watched by and will benefit audiences, i.e. the aggregate value that the proposal will generate for viewers as individuals. In this document we call this “personal value”; and
 - The costs of the proposal, i.e. the value in the context of the licence fee.
115. We have drawn on several sources to inform our analysis:
- Findings from the qualitative deliberative workshops run by PAPA;
 - Quantitative research by Kantar TNS;
 - Responses to the BBC’s consultation and issues raised in the stakeholder roundtables; and

³⁸ BBC, [Policy on material changes to the BBC’s public service activities and commercial activities](#), 7 Aug 2017.

³⁹ Ofcom, [Assessing the impact of proposed changes to the BBC’s public service activities](#), 29 March 2017.

⁴⁰ [BBC Charter](#), Article 11; [BBC Framework Agreement](#), Clause 8.

- Analysis and modelling undertaken by Frontier Economics and Communications Chambers.
116. In our assessment, we have recognised that it is not possible to put a monetary value on the different elements which contribute to public value. Instead we have taken a more qualitative approach to assess whether the contribution of each individual driver of public value is likely to be ‘neutral’, ‘low’, ‘medium’ or ‘high’.
117. Our assessment was conducted while our proposals have been evolving. Our analysis, based on the initial proposals⁴¹ has informed our conclusions of the scale and likelihood of the public value of our final proposals.⁴²

5.2 Social value: The BBC’s Mission and Public Purposes

118. The Charter requires the BBC to fulfil its Mission and promote its Public Purposes.

119. The Charter⁴³ states:

The Mission of the BBC is to act in the public interest, serving all audiences through the provision of impartial, high quality distinctive output and services which inform, educate and entertain.

120. In summary the Public Purposes⁴⁴ of the BBC are:

(1) To provide impartial news and information to help people understand and engage with the world around them.

(2) To support learning for people of all ages.

(3) To show the most creative, highest quality and distinctive output and services.

(4) To reflect, represent and serve the diverse communities of all of the United Kingdom’s nations and regions and, in doing so, support the creative economy across the United Kingdom.

⁴¹ See Box 1 in section 4.1.

⁴² See Box 4 in section 4.3.

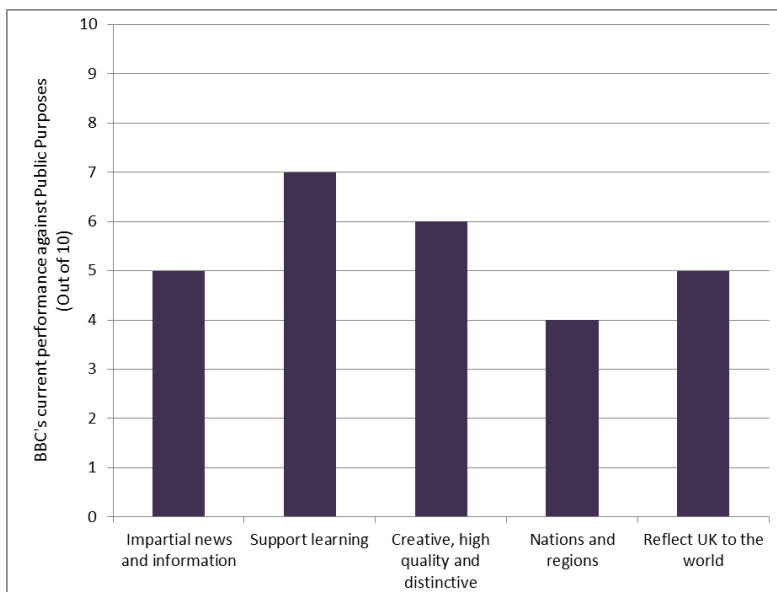
⁴³ Article 5, [BBC Charter](#), December 2016.

⁴⁴ Article 6, [BBC Charter](#), December 2016.

(5) To reflect the United Kingdom, its culture and values to the world.

- I21. In this section we describe how the new BBC Scotland channel will support the BBC in fulfilling its Mission and promoting the Public Purposes. In particular we examined whether the proposals will generate any of the wider social, democratic and cultural impacts that underpin the Public Purposes. In this document we refer to this value that the proposal will generate for society as a whole as “social value”.
- I22. As the definitions of the BBC’s Mission and Public Purposes inevitably overlap, we set out how the new BBC Scotland channel will deliver social value mainly with regard to the most directly relevant Public Purposes:
- Providing impartial news and information (the first Public Purpose);
 - Showing the most creative, high quality and distinctive output and services (the third Public Purpose);
 - Reflecting, representing and serving the diverse communities of the UK (the fourth Public Purpose);
 - Supporting the creative economy across the UK (the fourth Public Purpose); and
 - In doing so contribute to the BBC fulfilling its Mission.
- I23. The consultation asked respondents to consider how the proposals meet the BBC’s Mission and Public Purposes, as well as their social, democratic and cultural impact.
- I24. PAPA’s deliberative research asked participants to evaluate elements of our proposals in terms of their societal value. Similarly Kantar TNS asked participants on their views on the potential wider impact of the new channel and its societal value.
- I25. As part of the qualitative research we asked respondents to rate the BBC’s current performance out of 10 against each of the Public Purposes. The results are shown in Figure 4.

Figure 4: BBC's current performance against its Public Purposes in Scotland



Source: PAPA

5.2.1 Providing impartial news and information

Proposal

126. The BBC prides itself on providing impartial news and information across the whole of the UK.
127. The new BBC Scotland channel will incorporate a new integrated news hour. As the only televised integrated news programme covering major local, regional, national, United Kingdom and global issues within a single news programme available across the whole of Scotland on all platforms, it will engage audiences with a unique range and depth of analysis and content, contributing to more informed citizens and a more informed society.
128. The investment will not only support the new 9pm programme, it will also improve coverage of Scotland in network news programmes broadcast across the UK. The team working on the hour-long bulletin will produce further news output and reversion content made for the bulletin for inclusion in news bulletins broadcast on BBC One.
129. The new channel's availability via BBC iPlayer will help to build people's understanding of Scotland in other parts of the United Kingdom.

- I30. Furthermore, the increased investment in Scottish journalism will ensure the new integrated news programme and other coverage will meet the BBC's editorial standards, using the highest calibre presenters and journalists.

Stakeholder feedback and audience research

- I31. The investment in news and the news hour in particular was seen by some as central to the channel's mission, addressing a need for space where Scottish issues can be debated. It would further enhance informed citizenship and democratic participation by increasing choice and would allow for greater diversity of coverage, not just beyond Westminster, but beyond the Central Belt. These views were counterbalanced by one respondent who suggested that Scotland already has the best news provision of all the nations.
- I32. PAPA's research suggested that 81% of participants expressed 'medium to high' or 'high' approval of the societal value of the BBC's plans to show news from a Scottish perspective⁴⁵. PAPA also found that, when asked separately about whether the news provision was positive for society as a whole, 82% of those surveyed believed the proposals would be slightly better or much better than the current provision.
- I33. The research by PAPA also identified that there were some underlying concerns about representation and portrayal. However, many participants were hopeful that the channel could address their concerns.
- I34. Kantar TNS found that 63% of respondents to the quantitative survey approved of the proposals for news, with only 13% disapproving. Kantar TNS asked participants what features they liked most about the new channel and its wider impact. 6% of respondents spontaneously stated news and 3% of respondents specifically mentioned Scottish news.

Assessment and conclusions

- I35. The new BBC Scotland channel and the news hour gives the BBC an opportunity to ensure that the news agenda in Scotland more fully reflects the devolved powers of the Scottish Parliament. It also offers an opportunity to cover more Scotland-wide issues. We believe this new offer will further enhance how the BBC delivers high quality, accurate and impartial news in Scotland.

⁴⁵ Note that the results from the PAPA research expressed as percentages should be interpreted with caution due to the small sample sizes.

136. The continued provision of live day time political coverage during the day will further enhance the channel's contribution to this Public Purpose.
137. In conclusion, we found that the BBC Scotland proposal will contribute strongly to the promotion of the first Public Purpose, to provide impartial news and information to help people understand and engage with the world around them.

5.2.2 Showing the most creative, highest quality and distinctive output

Proposal

138. The new channel will be unique in the broadcasting landscape as the only English-language channel made in Scotland, for the people of Scotland, and available throughout all of Scotland on all platforms. Its multi-genre offer will have creativity and quality at its heart, offering distinctive coverage of local arts and culture and it will be prepared to take creative risks, including developing fresh approaches and innovative content. It will showcase the best new Scottish writing, acting and production talent. As with drama, BBC Scotland will seek out new techniques and treatments for both stand-up and scripted comedy. It will:
 - Cover a range of genres including drama, comedy, documentaries, arts, entertainment, specialist factual, news and current affairs, music and sport.
 - Incorporate a substantial proportion of new programming, specifically curated for Scottish audiences.
 - Have a distinctive focus on news, with its new integrated news hour edited and presented from Scotland.
 - Include a broad range of live Scottish sport in the channel's schedule. This offer will include a much broader range of sport than is traditionally seen on BBC Two Scotland and will feature a number of minority sports (e.g. shinty, hurling, bowls).

Stakeholder feedback and audience research

139. Respondents to our audience research strongly approved of the focus on Scottish audiences (70%) and the multi-genre approach (76%).
140. Some stakeholders raised concerns that the cost per hour of programmes on the new channel would be relatively low, which could detract from quality, given commitments around original programming. They stated that the

evidence suggests that audience appetite is for drama, comedy and documentaries, as well as TV news.

- I41. Others questioned how distinctiveness would actually be defined in this context. The stakeholder focus groups also echoed these points.
- I42. PAPA provided an example of the types of programmes audiences could expect to watch on the new channel. This was used to elicit feedback from participants. PAPA's research demonstrated that:
 - Some participants felt that the budget would be insufficient to deliver quality programming.
 - PAPA also highlighted some respondents' perceptions that the channel has the potential to be distinctive.
- I43. However, PAPA's research found strong support for the societal value of the proposals in terms of the potential content types. Respondents rated the mix of shows and new formats and talent highest in terms of their societal value. 70% of respondents expressed high approval of the societal value of the mix of shows on the new channel; 71% expressed high approval of new formats and talents on the new channel⁴⁶.

Assessment and conclusions

- I44. In conclusion, we found that the new channel will strongly support the BBC in showing the most creative, highest quality and distinctive output and services in Scotland.

5.2.3 Reflecting, representing and serving the diverse communities of all of the United Kingdom's nations and regions

Proposals

- I45. The new channel will help to ensure that the BBC better reflects the diversity of the United Kingdom both in its output and services. Its output will accurately and authentically represent and portray the lives of the people of Scotland and raise awareness of the different cultures and alternative viewpoints that make up its society.

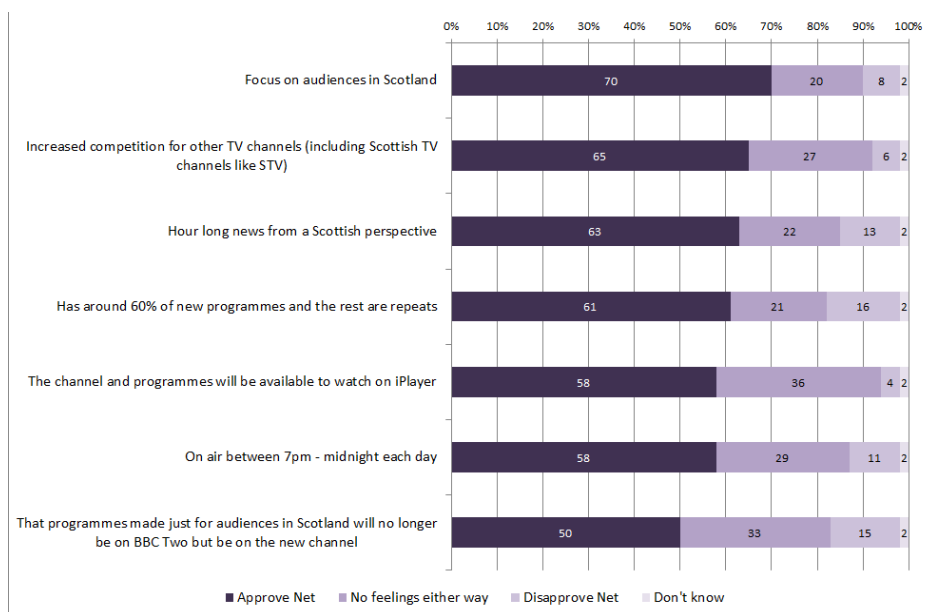
⁴⁶ Source: BBC analysis of PAPA questionnaire responses.

Stakeholder feedback and audience research

- I46. Responses to the consultation were overwhelmingly in favour of the Scottish focus of the new channel. For example, several trade bodies and industry groups noted that the channel would be a positive move for the Scottish broadcasting and media sectors. Many independent producers commented on the potential benefits to Scottish audiences.
- I47. Some stakeholders suggested the channel was vitally important for national identity and mentioned the potential for the channel to respond to Scotland's cultural renaissance. They suggested it would help drive audience awareness of Scotland's cultural offer, broadening community engagement with the arts. However, a number of the same stakeholders warned of the risks of 'ghettoisation' of Scottish content and talent.
- I48. PAPA's deliberative research also recorded high approval from participants of the Scottish focus of the new channel. From a societal perspective, 81% approved of the channel's focus on audiences in Scotland (56% expressed high approval).⁴⁷
- I49. Kantar TNS found evidence of strong support from those surveyed for the focus of the channel on Scotland. About a third of respondents (32%) spontaneously mentioned the Scottish focus as the feature they most liked about the new channel.

⁴⁷ Source: BBC analysis of PAPA questionnaire responses.

Figure 5: Approval ratings for features of the new channel



Source: Kantar TNS

Assessment and conclusions

150. We concluded that, in the context of Scotland, the proposed channel will contribute very strongly to the BBC’s Public Purpose of reflecting, representing and serving the diverse communities of all of the UK’s nations and regions.

5.2.4 Support the creative economy across the United Kingdom

Proposals

170. The proposal to launch the new BBC Scotland channel includes an additional investment of £18 million by the BBC. This will represent an increase of 9% in the size of the Scottish original production sector compared to 2014.

171. In addition to increasing the number of programmes made specifically for audiences in Scotland, the channel could also have an impact beyond the BBC, bringing additional work for broadcast production companies and for the creative sector in general. The new channel will also provide more opportunities to grow and develop talent both on- and off-screen, bringing benefits for the creative industries in Scotland.

Stakeholder feedback and audience research

- 172. Many respondents to our consultation highlighted the positive impact of the BBC's proposals for the creative economy of Scotland.
- 173. PAPA's deliberative research recorded high approval from participants of the impact of the new channel on the creative economy in Scotland. From a societal perspective, 87% approved of the channel's contribution to Scottish industry (62% expressed high approval).
- 174. A small further minority (10%) stated that they most liked that the channel would be good for Scotland, for example in terms of its impact on the creative industries or economy.

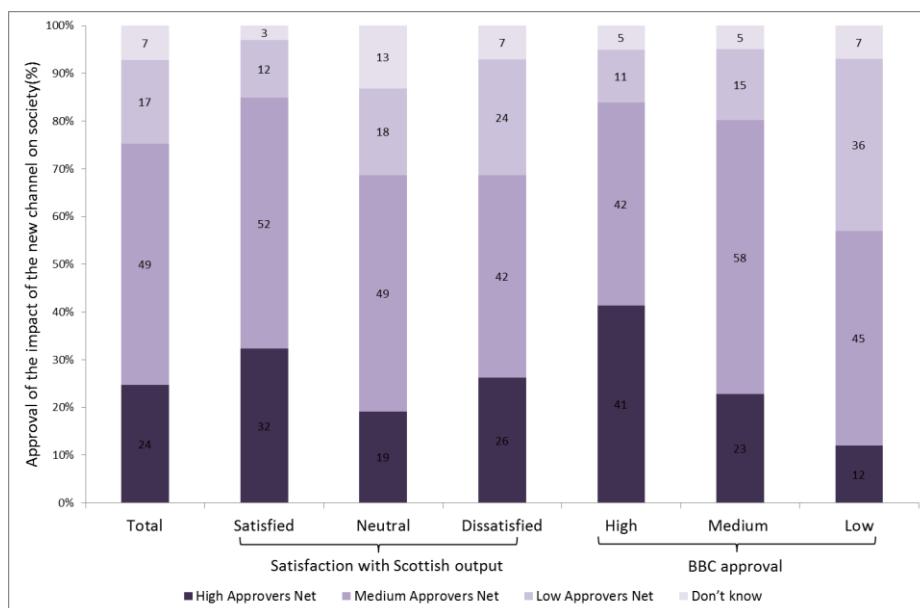
Assessment and conclusions

- 175. We concluded that the increased investment in programming originated in Scotland and the rebalancing of licence fee spend across the UK will provide a boost to the creative economy in Scotland and contribute to its further development.

5.2.5 Overall assessment of the social value of the proposal

- 176. The evidence suggested that the proposals will have very strong societal value and therefore the contribution of this driver of public value is high.
- 177. As shown in Figure 6, the Kantar TNS research indicates that 76% of respondents approved of the impact of the new channel on society as a whole. Even among those currently dissatisfied with Scottish output 68% approved of the societal impact of the new channel, as did 57% of those with a low approval of the BBC generally.

Figure 6: General impression of the new channel and its wider impact on society as a whole



Source: BBC analysis of Kantar TNS survey data

178. Therefore, we concluded that stakeholder feedback and our research and analysis strongly indicate that the new channel will contribute very strongly to the BBC’s Mission and the promotion of the following particular Public Purposes:

- To provide impartial news and information to help people understand and engage with the world around them;
- To show the most creative, highest quality and distinctive output and services;
- To reflect, represent and serve the diverse communities of all of the United Kingdom’s nations and regions; and
- In doing so, support the creative economy across the United Kingdom.

5.3 Personal value: reach and viewer benefits

179. A key driver of public value is the extent to which the new channel will be watched by and will benefit audiences, i.e. the aggregate value that the proposal will generate for viewers as individuals. In this document we call this “personal value”.

5.3.1 Estimating the likely viewing of BBC Scotland

Economic modelling of reach

180. In the following section we present a summary of our estimates of reach for the new channel. Our estimates are intended to be indicative, based on a range of assumptions, rather than precise forecasts. For this reason, we present a range of estimates drawing on the analysis of the initial proposals (see Box 1 in section 4.1) undertaken by Frontier Economics and Communications Chambers.
181. Our approach to estimating reach (relative to the counterfactual described in section 6.3) involved the following steps.
- First we estimated hours of viewing for the new BBC Scotland channel⁴⁸ and the changes in viewing which occur as a result of the closure of BBC Two Scotland and the change in the position of BBC Four on the EPG.
 - Secondly, having estimated the changes in viewing for these three channels, we then calculated the ‘sources’ of any increases in viewing of BBC Scotland (i.e. which services any additional viewing comes from) and the ‘sinks’ of the reductions in viewing of BBC Two and BBC Four (i.e. which services any loss in viewing of BBC Two and BBC Four goes to) to understand the impact of the proposals across the BBC’s portfolio of services. This enabled us to estimate the hours of viewing for the new channel and other services as a share of total TV viewing.
 - Lastly we calculated the likely average weekly reach for the channel in Scotland based on the estimates of share of viewing for the new channel during the hours of 7pm – midnight. This step draws on the reasonably consistent relationship between channels’ share and reach.
182. One issue which will determine the performance of the channel in its early years is how quickly the channel reaches a stable performance. This could depend on a range of factors which are difficult to quantify – for example, the

⁴⁸ The starting point for modelling viewing hours for the new channel was the historic viewing hours for BBC Two opts programming. These figures are then adjusted to take into account a number of factors, including the proposed programme budget for the channel, the likely position of the channel on the EPG and the fact that the programming on the new channel, unlike some of the opts programming, will be shown in peak.

extent to which the channel is promoted prior to launch and how quickly the channel starts to resonate with audiences. To reflect this we considered two scenarios.

- In the first scenario we assumed that it would take the channel 24 months from launch to reach a stable performance. This scenario gives a set of lower bound estimates.
- In the second we assumed that the channel would stabilise its performance by 2019. This scenario provides a set of upper bound estimates.

183. As a result, we estimated that under a range of assumptions, by 2019 the channel will achieve an average weekly reach in Scotland which varies between 5.1% and 12.2%⁴⁹.

184. Table 4 shows our estimates of reach for the channel over time under the two scenarios.

Table 4: Predicted reach for the channel

%	2018	2019	2020	2021	2022
Scenario 1: Average weekly reach in Scotland	0.4%	5.1%	10.9%	12.2%	12.2%
Scenario 2: Average weekly reach in Scotland	4.1%	12.2%	12.2%	12.2%	12.2%

Notes: Estimates includes an uplift for viewing of the channel on iPlayer and assume a launch in September 2018. In the event that the channel launches later than this, forecasts would shift appropriately. Figures may not match text due to rounding.

185. In the scenario where the channel takes two years to stabilise its performance, the BBC's reach in Scotland (taking into account BBC Scotland's cannibalisation of viewing of other BBC channels, the removal of opts from BBC Two and the change in the BBC Four's position on the EPG) increases from 81.1% to 81.2%⁵⁰ in 2019 as a result of the proposals.

186. In the scenario where the channel's performance stabilises within a matter of months, the BBC's reach in Scotland (taking into account BBC Scotland's cannibalisation of viewing of other BBC channels, the removal of opts from

⁴⁹ These estimates are for the BBC's initial proposals as described in Box 1 in section 4.1. They therefore do not match those cited in section 7 which reflect our final proposals. See Annex 3 for further explanation.

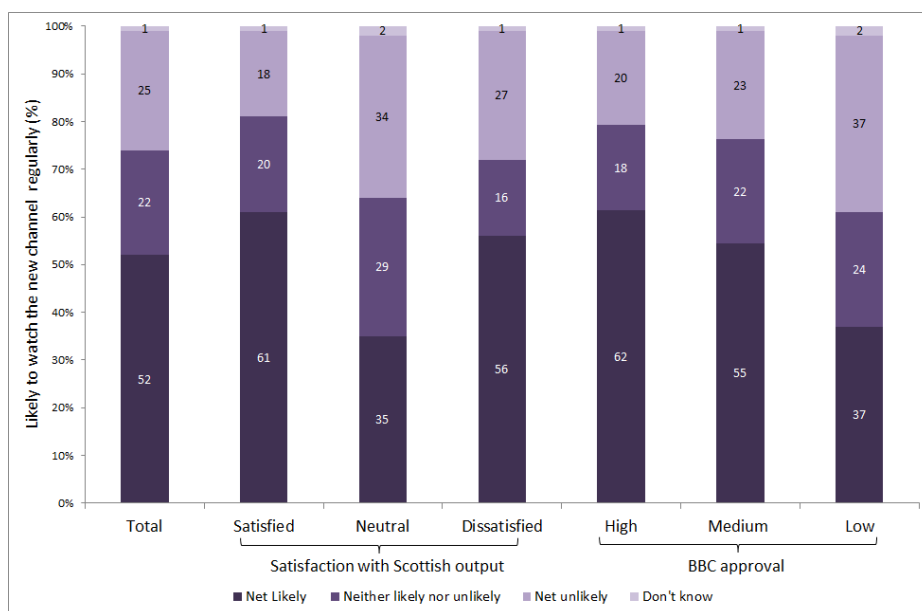
⁵⁰ Note that this is reach via the linear service. It is not possible to calculate the incremental reach derived from online viewing, though this is likely to be minimal.

BBC Two and the change in the BBC Four's position on the EPG increases) from 81.1% to 81.3% in 2019 as a result of the proposals.

Audience research into likely usage

187. Quantitative research by Kantar TNS found that just over half of people surveyed (52%) claimed they would watch the new channel regularly, with around one in six very likely to watch. Only around a quarter (26%) said they would be unlikely or very unlikely to watch.
188. Likelihood of watching regularly was highest amongst those with a high approval of the BBC (62%), those satisfied with current Scottish output (61%) and those dissatisfied with the current Scottish output (56%). This suggests that those who currently like the BBC's Scottish output would like to watch more of it and that those most dissatisfied welcome additional Scottish output.

Figure 7: Likely to watch the new channel regularly



Source: BBC analysis of Kantar TNS survey

Assessment and conclusions

189. The evidence suggested that the channel will perform in line with channels of a similar budget and broadcasting similar hours. Hence the contribution to this driver to public value is ‘medium’.

5.3.2 Viewer benefits

Audience impact

190. In this section we consider the key consumer benefits that the channel could generate and how much audiences would appreciate the changes personally.
191. We also consider the impact on audiences of the other changes to the BBC’s public services – most notably the ending of BBC Two opts programming for audiences in Scotland and the moving of BBC Four further down the EPG for audiences in Scotland.

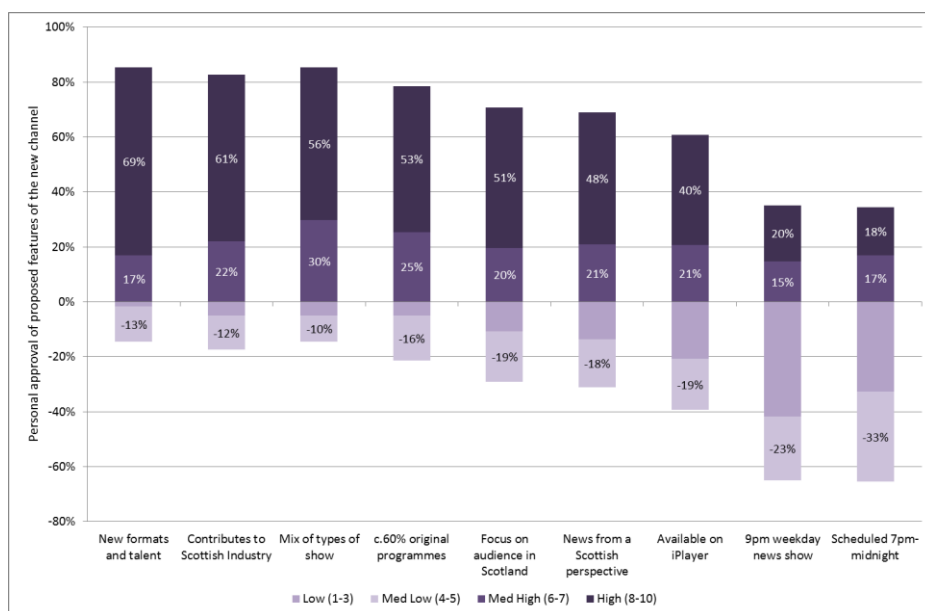
Stakeholder feedback and audience research

The new BBC Scotland channel

192. PAPA provided an example of the types of programmes audiences could expect to watch on the new channel. This was used to elicit feedback from participants. PAPA's research identified that:
- From a personal perspective, many participants were unsure about the quality of the proposed content, with specific concerns that news would take up a large proportion of the funding available for the channel.
 - Some participants felt that the budget itself would be insufficient to deliver quality programming.
 - PAPA also highlighted some respondents' perceptions that the channel has the potential to be distinctive.
193. However, these concerns are offset by the very strong support for the channel proposition.
194. With respect to news specifically, PAPA found that 48% of participants had a 'high' personal approval of the proposal to show news from a Scottish perspective⁵¹, with a further 21% expressing 'medium to high' approval.
195. As part of PAPA's qualitative research participants were asked to rate a range of characteristics of the proposed new channel. Participants were asked to rate their responses on a scale of 1-10 (low to high) to gauge their strength of feeling on the potential value of each of these elements.

⁵¹ Although they were not necessarily supportive of an hour of news at 9pm.

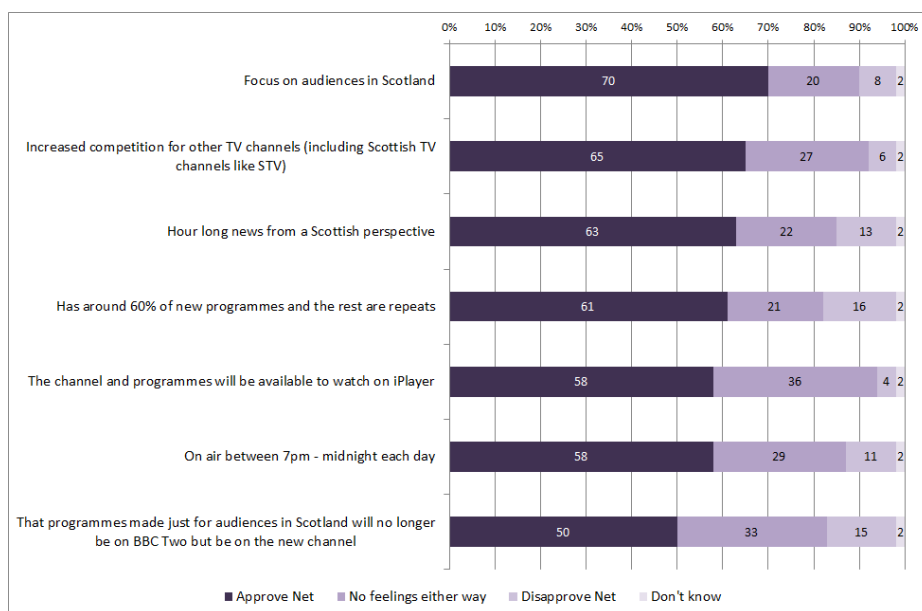
Figure 8: Personal approval scores (qualitative)



Source: PAPA

196. Participants were, on a personal level, most positive about the potential for new talents and formats (69% of respondents expressed ‘high’ approval), contribution to Scottish industry (61%) and a mix of different types of shows (56%). More than half of respondents said they approved highly of the new channel’s focus on the audience in Scotland and the percentage of new programming. This reflects stakeholder views as set out in 5.2.3.
197. Participants were least favourable about the proposed hours of broadcast and news scheduling. However, they were favourable towards the proposal having UK and international news from a Scottish perspective. This underscores that audiences are enthusiastic about the provision of more Scottish-focused news, though not all would watch an hour of news at 9pm. This is consistent with the feedback from a number of stakeholders in the consultation as set out in 5.2.1.
198. To better understand which particular aspects of the proposal might drive audiences’ feelings about the channel on a personal level, Kantar TNS asked participants, for a range of features of the proposal, whether they approved strongly, approved slightly, had no feelings either way, slightly disapproved or disapproved strongly.

Figure 9: Personal approval scores (quantitative)



Source: Kantar TNS

199. Kantar TNS' findings were similar to those for PAPA. The highest approval scores were for the opportunities the channel would provide for people making TV programmes in Scotland (77% approved strongly or slightly), the mix of different programmes (76%) and the focus on audiences in Scotland (70%). Some of the largest disapproval scores were for the percentage of new programmes (16% disapproved strongly or slightly) and changes to BBC Two Scotland (15%).
200. Over half of respondents in the Kantar TNS survey approved (either strongly or slightly) of all of the above elements of our proposals, except for the proposed budget.
201. We also note that in a debate in the Scottish Parliament, there was cross-party support for a new television channel for Scotland.⁵²
202. Overall, our proposals were supported by participants.

Changes to the BBC's other public services

203. PAPA asked for participants' views on the changes to BBC Two Scotland and BBC Four. When asked whether the changes to BBC Two Scotland were likely to make 'things much worse, slightly worse, the same, slightly better or

⁵² [Meeting of the Parliament on 1 March 2017](#)

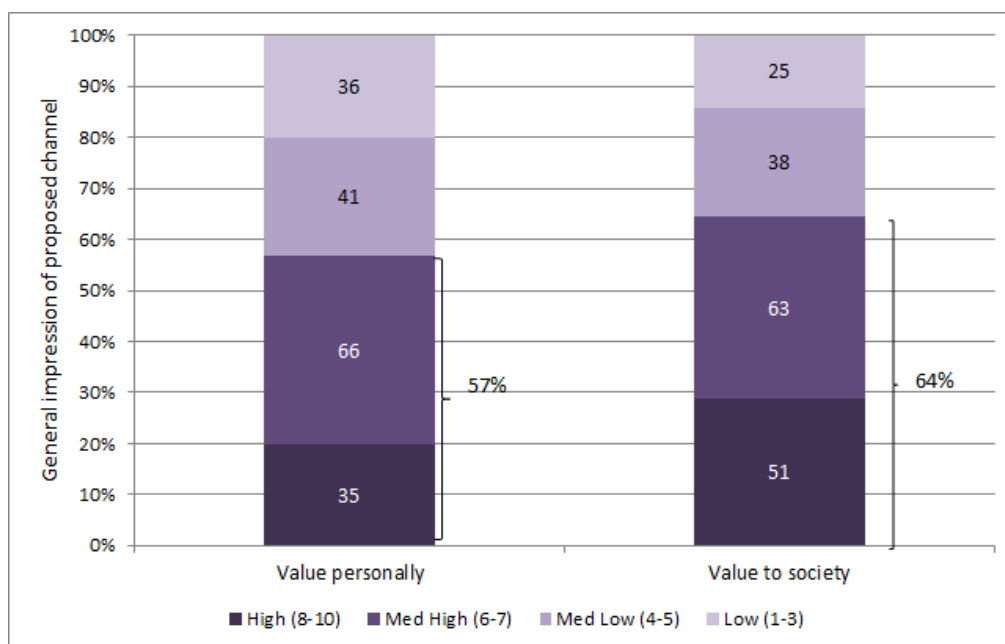
much better', around 22% of respondents felt things would be worse and 23% better. However, only a small minority was highly concerned about the impact of the proposed changes to BBC Two Scotland, while over half of participants had a low level of concern. For changes to BBC Four, 22% of respondents perceived a negative impact. However, over 75% of participants in the deliberative research had a low level of concern about the potential changes to BBC Four, suggesting that, on balance, this is unlikely to be an important issue for audiences.

204. The quantitative research suggests that while a small minority of people perceived disadvantages to our proposals on BBC Two Scotland and BBC Four, a much higher proportion were in favour or had no strong feelings.
205. Changes to BBC Two Scotland and BBC Four were the second and third most unpopular features of the new channel for participants in Kantar TNS' quantitative survey. However, for the changes to BBC Two Scotland, around half (49%) of respondents still approved of the change, with a further third (33%) of respondents expressing no strong feeling. On our proposals for BBC Scotland to take the BBC Four slot on the programme guide, over 50% of respondents had no feelings and only 10% disapproved, while around a third (35%) approved.

Assessment and conclusions

206. While the research findings were strongly positive about the impact on Scottish society more widely, respondents to our research and consultation raised questions about the potential quality of the programming, the level of the budget, and the prevalence of news in the schedule.
207. This difference between the potential social value and personal value can be seen clearly in Figure 10, with 64% of respondents approving of the value of the new channel to society and 57% approving of the value of the new channel on a personal level.

Figure 10: General impression of the proposed channel



Source: PAPA

- 208. It is, however, important to note that a clear majority approved of the new channel on a personal basis. Also, while respondents can approve in general of societal impacts, their approval of a new channel on a personal basis will be dependent on their individual preferences and experiences of the new channel and it can be difficult for respondents to answer questions about a service which they do not yet have experience of.
- 209. The new channel will provide an opportunity for the BBC to offer a wide range of programmes within a schedule which reflects the editorial vision for the channel. This is in contrast to current opts output which has to fit in to the slots available to them on other BBC services.
- 210. However, the challenge for the BBC will be to ensure the channel is distinctive, creative and high quality and includes programming that resonates with audiences in Scotland.
- 211. With regard to the changes to the BBC’s other public services, the findings of the quantitative and qualitative research, alongside feedback from the consultations, suggested that audiences are not particularly concerned about the impact of these changes.

5.3.3 Overall assessment of the personal value of the proposals

212. Our economic analysis and audience research suggested that the proposed new channel will have an audience reach comparable to BBC channels of a similar budget.
213. Both the quantitative and qualitative research demonstrated audiences' broad support for the proposals as a whole. 56% of respondents to the Kantar TNS research had a favourable view of the value of the channel to them and their household, after they were given a description of the proposals.
214. Where respondents have raised questions about the potential quality of the programming, the level of the budget and the prevalence of news in the schedule, the BBC will fulfil its editorial vision for the channel to meet these challenges and ensure that its content is distinctive, creative and high quality.
215. Therefore, in summary, we concluded that the proposed channel will generate 'medium' to 'high' personal value, with the latter rating partly depending upon how quickly the channel resonates with audiences.

5.4 Costs

216. In this section of the document we present a high level description of the costs associated with the proposed changes over a three year period.

5.4.1 Content and content-related costs

217. Table 5 shows the estimated programme costs⁵³, assuming that the channel launches in Autumn 2018. Given that the exact timing of launch is subject to some uncertainty, for the purposes of this assessment, we have assumed that the channel will launch in September 2018. Should the actual launch date be delayed (for example, if the channel launched in December 2018), then costs for 2018/19 would need to be pro-rated.
218. As the BBC only sets budgets on a three year basis, the exact programme budget for the channel for 2020/21 is not yet known. We have therefore assumed that funding for the channel in subsequent years will be at the levels shown for 2019/20.

⁵³ Note that expenditure on programmes is not the same as expenditure on content as the former is net of overheads.

Table 5: Programme budget for the BBC Scotland channel (£m)

	2018/19 (partial year)	2019/20	2020/21
News	4.0	6.8	6.8
Non-news content	14.5	24.8	24.8
Day time political coverage	0.5	0.7	0.7
Total	18.9	32.3	32.3

Note: Figures included in the table are estimates and have been rounded. The estimates reflect the proposals as described in Box 4 in section 4.3 and therefore include the costs of day time political coverage. The programme budget for the channel without this additional daytime programming is £31.6 million in 2019/20.

219. As the table shows, the amount of money allocated to the channel for programming has been set at around £32 million. However the channel's actual expenditure will reflect how many hours are commissioned by the channel, how many programmes are commissioned by other BBC channels and shown (i.e. premiered, simulcast or repeated) on BBC Scotland and how many acquisitions the channel makes. For example, in line with current practice, if BBC Scotland repeats a programme that is commissioned by BBC Four, only the rights cost of repeating that programme will be included in BBC Scotland's content budget.

Non-content related costs

220. As well as the programme and content-related spend listed above, the new BBC Scotland TV channel will give rise to some non-content related costs.

- One-off costs;
- Payout costs;
- Distribution costs; and
- Allocation of central and local overheads.

221. One-off costs include marketing costs. These will be higher in the launch year than in subsequent years.

222. There will be no incremental payout costs as the BBC Scotland channel will use the existing payout suite that is currently used by BBC Two Scotland.

223. Similarly incremental distribution costs will be minimal. This is because the existing distribution budget allocated to BBC Two Scotland will simply be transferred over to cover the costs of BBC Scotland.
224. In addition the channel will be allocated a share of central and local overheads in line with the approach that is used for other BBC television channels. Similarly we have assumed that BBC Scotland's share of distribution costs will be allocated in line with the approach that is used for other BBC television services.

5.4.2 Cost per Scottish User Hour

225. One of the ways we can assess whether the proposal generates public value is by comparing estimated cost per viewer hour for the channel with the same metric for other relevant channels. This helps to identify how effective spending on the BBC Scotland channel is at capturing viewing in Scotland relative to other BBC channels.
226. More precisely, we have considered cost-per-Scottish-user-hour, which is the relevant comparator, given that we assume the new channel's viewing outside Scotland will be minimal. Thus we have adjusted upward the standard Cost Per User Hour (CPUH) estimates⁵⁴ for the existing BBC channels to compare only the portion of their viewing that is from Scotland to their overall costs. For example, BBC One's overall CPUH is 6.7p, but its cost per Scottish user hour is 71.1p. CPUH for BBC Two in Scotland and BBC Four in Scotland are 98p/hour and 78p/hour respectively.
227. We have estimated that the CPUH for BBC Scotland will be approximately 75p/hour⁵⁵ once the channel's performance has stabilised. This suggests that in its early years the channel will have a similar cost per Scottish user hour to many other BBC channels. CPUH for BBC Scotland will also be comparable with that of BBC Two opts programming in Scotland.
228. In addition to looking at the CPUH, we have also taken a more qualitative approach to assessing the public value of the proposals. However we recognise that it is difficult to weight and score the different elements of

⁵⁴ See the [BBC Annual Report and Accounts 2016/17](#).

⁵⁵ The CPUH figures cited in the BBC Annual Report and Accounts reflect content spend rather than programme spend. We have adjusted the BBC Scotland programme budget to give an estimate of the content budget for the channel. This ensures that the CPUH estimates for BBC Scotland are calculated on a similar basis to the CPUH figures in the BBC's annual report.

public value (particularly citizen benefits) and therefore our assessment inevitably involves value judgements.

5.5 Overall assessment of the public value of the proposals

229. We concluded that the proposal will deliver ‘high’ public value. This takes into account the scale and the likelihood of the different elements of public value

230. Our qualitative assessment found that the proposals:

- They strongly contribute to the Mission and Public Purposes. Consequently the contribution of this driver to public value is ‘high’.
- Reach for the channel is in line with what we would expect. Personal viewer value from the proposals is likely to be ‘medium’ to ‘high’.
- Costs for the channel are in line with that for other BBC services of a similar budget and broadcasting similar hours which offer good value for money. Therefore we conclude that the contribution of the cost driver to public value is ‘neutral’.

6 Potential impact on fair and effective competition

242. In this section we set out the potential impact of the proposals outlined in the June 2017 consultation on fair and effective competition.

- First, we describe the approach we adopted to assess any potential impact on fair and effective competition.
- Second, we describe the sectors and services most likely to be affected by the BBC Scotland proposals.
- Third, we explain the counterfactual against which we assessed the potential impact of the proposals.
- Fourth, we describe the potential competition impacts on each sector.
- Finally, we summarise our conclusions on the potential impact on fair and effective competition.

243. We have undertaken our analysis while the channel was still evolving its plans. As a result, much of the evidence included in this analysis relates to the BBC's initial proposals as described in Box 1 in section 4.1. Nevertheless, this evidence has been informative in developing our conclusions on the impact of the BBC's final proposals (as described in Box 4 in section 4.3) on fair and effective competition.

244. Throughout this section we quote a range of share estimates. Further details about the assumptions underpinning these estimates are included in Annex 3.

6.1 Approach

245. In this section we set out the framework we used to assess the potential impact of the BBC Scotland proposals on fair and effective competition. Our approach is in line with the Ofcom document "*Assessing the impact of proposed changes to the BBC's public service activities*".⁵⁶ It is also in line with the

⁵⁶ Ofcom, [Assessing the impact of proposed changes to the BBC's public service activities](#), 29 March 2017.

BBC's published policy on material changes.⁵⁷ Our approach comprised four main steps.

246. First, based on the description of the initial proposals provided in section 4.1, we identified the sectors most likely to be affected. As discussed by Ofcom, BBC proposals can have an impact through potentially crowding out commercial activity and affecting competition in the supply chain.⁵⁸ We therefore looked at the potential horizontal impacts of the proposals and impacts on upstream sectors (e.g. content production) and downstream sectors (e.g. TV platforms).
247. Second, we set out a counterfactual for the identified sectors, describing how we expect these sectors to evolve if the proposals did not go ahead. This counterfactual was used as a comparison to assess the potential impact of the proposals on fair and effective competition.
248. Third, for each of the identified sectors, we assessed the potential positive and negatives impacts of the proposals, including both static and dynamic impacts.
 - Static impacts – these are the potential direct effects of the proposals on the identified sectors. For example, whether the BBC's investment in a new Scotland channel could result in a decrease in the advertising revenues received by commercial broadcasters.
 - Dynamic impacts – these are the potential effects which result from other providers changing their behaviour. For example, whether the BBC's investment in a new Scotland channel could alter commercial providers' incentives to invest in content or to innovate⁵⁹.
249. Fourth, we assessed the wider potential cumulative impacts of the proposals. For example, we considered whether the BBC Scotland proposals to invest in television news services could positively affect the quality and quantity of

⁵⁷ BBC, [Policy on material changes to the BBC's public service activities and commercial activities](#), 7 August 2017.

⁵⁸ Ofcom, [Assessing the impact of proposed changes to the BBC's public service activities](#), 29 March 2017. Paragraphs 5.15 to 5.20.

⁵⁹ Paragraph 5.16 of Ofcom's guidance states that investments by the BBC "*may reduce other providers' revenue and profitability, ..., potentially reducing their willingness to innovate and invest and may result in some providers ceasing to provide services and others being deterred from entering to an extent [that] is not in society's interests*". As a result, our dynamic analysis inevitably involves making a probabilistic prediction about future events and will involve an exercise of judgment.

Scottish news on the BBC website and whether this could have a cumulative impact on STV, since it operates television channels and a news website.

250. Our assessment drew on a number of evidence sources, including:
- analysis by Frontier Economics and Communications Chambers (Frontier CC) on the potential impact of the proposals on fair and effective competition;
 - Kantar TNS quantitative research commissioned by the BBC;
 - PAPA qualitative research commissioned by the BBC;
 - feedback from our stakeholder consultation on the proposals over June and July 2017; and
 - feedback from stakeholder round-table sessions held in June and July 2017.

6.2 Sectors most likely to be affected

251. We identified the sectors which were most likely to be affected by the proposals, based on the characteristics of the proposals described in section 4.1.
252. In line with the approach discussed in Ofcom's guidance, we considered:
- whether our proposals could crowd out horizontal competitors;
 - whether the proposals could have potential impacts on the supply chain; and
 - whether the proposals could have potential wider cumulative impacts.

6.2.1 Horizontal impacts

253. The BBC is proposing to launch a new free to air (FTA) channel in Scotland in standard definition. The channel would also be available in high definition throughout the UK through BBC iPlayer. We identified the types of services which were most likely to be affected by this channel.
- First, **FTA broadcasting channels** - (e.g. ITV and Channel 4) and free video-on-demand players (e.g. ITV Hub and My5). Since the channel will focus on broadcasting programmes specifically targeted at audiences in Scotland, STV is likely to be the broadcaster most affected by the channel.
 - Second, **pay TV channels** – e.g. BT Sports and Sky Atlantic.

- Third, **subscription video-on-demand (SVOD)** services - e.g. Amazon Prime and Netflix.

6.2.2 Supply chain impacts

254. We considered whether the proposals could affect:

- Competition downstream in the supply chain between **TV platforms** (e.g. Freesat, Freeview, Sky, and Virgin Media), where BBC Scotland would be an input into these platforms.
- Upstream competition between **content production** companies, e.g. EndemolShine Group, Matchlight and STV Productions.
- The upstream supply of **journalism** in particular companies (e.g. Clyde 1 radio or STV) who broadcast news aimed at audiences in Scotland.

6.2.3 Wider and cumulative impacts

255. We considered whether the launch of the new channel could have wider cumulative effects on competition. In particular whether links between the BBC Scotland channel and other BBC services could lead to increased use of these other services, which, in turn, could affect other sectors. For example, the BBC Scotland proposals involve investment in television news services. If this investment resulted in an increase in the quality and quantity of Scottish news available on the BBC website, it could affect other providers of Scottish news, including Scottish newspapers, radio stations and news websites.

256. We also considered whether the proposals could have a cumulative impact on some companies who operate in multiple sectors. For example, if STV Productions benefitted from higher spend by BBC Scotland, while the STV channels received fewer viewers.

257. We discuss these wider and cumulative impacts in section 6.5.

6.2.4 Potential impacts on other sectors

258. Given our finding that the proposals are unlikely to have an adverse impact on fair and effective competition in the sectors discussed above, we expect that the impact on other sectors beyond those identified would be too marginal to result in an adverse impact on fair and effective competition. For example, the launch of BBC Scotland could result in some individuals reading fewer magazines, but any change in the readership of magazines is unlikely to

have an adverse impact on fair and effective competition in magazine publishing or retailing.

6.3 The counterfactual

259. The counterfactual represents our view of the situation if the proposals did not happen. This is the baseline for our analysis and the situation against which the proposals are assessed.
260. The counterfactual forecast for the television sector is relatively simple. It projects viewing in Scotland and the UK for: BBC One, BBC Two, BBC Four and other BBC portfolio channels; ITV, STVI⁶⁰ and STV2; and other channels. It assumes that viewing shares remain fixed at 2016 levels. In line with recent trends, it assumes viewing volumes fall at 1% per year in Scotland, and at 2% per year in the rest of the UK.
261. This counterfactual assumes the status quo for BBC services and that the £18 million extra funding for BBC Scotland does not result in a reduction in the quality and volume of other BBC services in the UK.
262. Given the potential impact on STV, we reviewed the 2016 STV Annual Report to obtain more clarity on STV's business plans and commissioning strategies in the counterfactual. STV's Annual Report did not mention any particular one-off large investments in the TV channels. It noted that STV has renewed a long-term (8 year term) arrangement with ITV plc to cover its future agency representation of airtime and sponsorship sales. With respect to STV2, it wrote:

“The launch of a new channel is an important landmark for the Company. This will create new opportunities to grow our share of the Scottish advertising market whilst extending our appeal to a wider range of consumers. This new network will build on the success of our existing City TV services and will be delivered through a unique partnership with academic partners. This is successfully providing skills and development opportunities to strengthen our future talent pipeline.”⁶¹

263. In light of the evidence above, for the purposes of this assessment we have assumed that the STV strategy is to continue:

⁶⁰ For clarity, we refer to the STV channels as STVI and STV2 and the broadcaster as STV.

⁶¹ STV, [Annual Report and Accounts 2016](#), page 5.

- Its current approach of primarily broadcasting national ITV content on STV1.
- Developing STV2, with this channel showing a higher proportion of Scottish focussed content than STV1.⁶²

264. We also did not identify any content broadcast by STV which, if lost, would have a substantial impact on its profitability.

265. The counterfactual assumed the status quo for all other providers.

6.4 Analysis of affected sectors

266. This section contains our analysis of the potential impact of the proposals on fair and effective competition in the sectors identified above: FTA broadcasting, pay TV channels, SVOD, TV platforms, content production, and journalism.

6.4.1 FTA Broadcasting

267. We considered whether the proposals would be likely to have any static and/or dynamic impacts on FTA broadcasters.

Static analysis

268. This section summarises the evidence we considered on static impacts, in particular the analysis undertaken by Frontier CC. The Frontier CC analysis was based on the initial proposals (as summarised in Box 1 in section 4.1) and hence the results reported here are different to the estimates presented in section 7 of this document.

269. The Frontier CC viewer and revenue modelling work concluded that:

- BBC Scotland would capture a 0.4%-0.9% viewing share of all TV viewing (or a 0.9%-2.1% viewing share in the hours 7-12pm) in Scotland in 2019. This would lead to BBC channels gaining (and other channels losing) 0.2%-0.4% percentage points of viewing in Scotland.
- STV1 would lose [X] percentage points of viewing share, and STV2 a nominal amount (although its starting share was already low). All

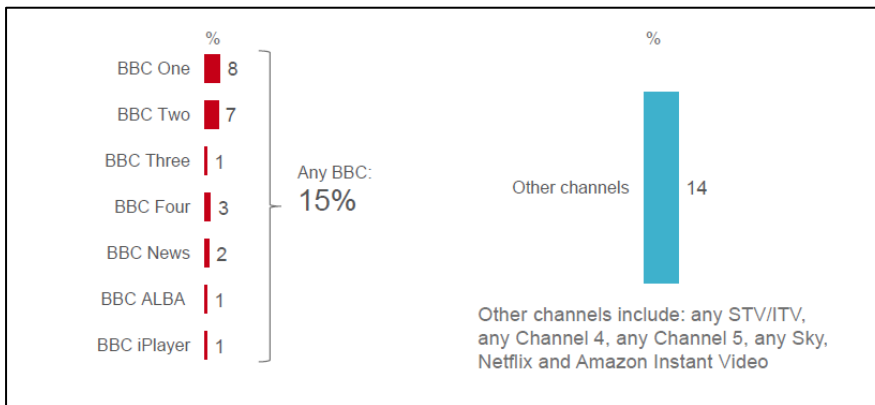
⁶² Frontier CC analysis.

other commercial channels lost a total of 0.1-0.3 percentage points from their combined 52.3% Scottish viewing share in the counterfactual.

- Commercial advertising revenues (including digital) would decline by £700,000-£2 million, in the context of national TV advertising revenue of approximately £4 billion in 2016. ITV advertising revenues were forecast to fall by £[redacted].
- When the viewing share changes were applied to STV’s 2016 accounts, the STVI channel was estimated to lose between c£[redacted]. This was a [redacted]% reduction in STVI’s channel revenues of £100 million in 2016. The analysis forecast a nominal to £[redacted] impact on STV2 – a reduction of [redacted]% or less in STV2’s advertising revenue of £1.2 million.

270. The quantitative survey carried out by Kantar TNS also contained evidence relevant to the potential impact of BBC Scotland on FTA broadcasting. Respondents were asked: “Do you think you would watch any of the following TV channels or services less often if this new channel was launched?” The results are shown in Figure 11 below.

Figure 11: Change in viewing habits.



Source: Kantar TNS. Base: All who are likely to watch the new channel (549).

271. The results suggested that the main impact of the channel would be on existing viewing of BBC channels, with 15% of respondents saying they would watch less of any BBC channels or iPlayer. Fewer respondents ([redacted]%) said they would watch less of any ITV/STV channels, including less use of STV Player and ITV Hub. For Channel 4 and Channel 5 the results were even smaller ([redacted]% and [redacted]% respectively).

272. The PAPA qualitative research touched on the impact on other channels, with respondents feeling that the impact on the creative industries, through more competition for existing channels and investment, would be positive.⁶³
273. One respondent raised a number of concerns with the proposals in its consultation response. In particular the respondent highlighted that the main impact of the channel would be on TV services and that the new channel could have specific, disproportional and material impacts on its own channels. The respondent commissioned survey work to assess potential interest in the BBC Scotland channel. The results suggested that the main impact will be on BBC One.
274. The respondent was also concerned that the additional funding could have a negative impact on its ability to source film and documentary content for one of its channels.
275. In other feedback to the consultation some respondents questioned whether the new channel would be able to show quality programmes, given its relatively low hourly budget.

Dynamic analysis

276. We considered how other FTA broadcasters might respond to the potential static impacts described above. This analysis was necessarily more speculative, since it involved predicting whether other providers would be likely to change their behaviour in response to the planned BBC investment, including whether it would reduce their willingness to innovate and invest.
277. As noted in the Frontier CC analysis, STV1 and STV2 would be unlikely to face lower incentives to invest in programming, as the forecast reduction in STV revenues was so small.⁶⁴ The Frontier CC analysis also showed:
- the content differences between STV1, STV2 and the planned BBC Scotland;⁶⁵
 - the lack of an obvious clear relationship between STV's revenues and programming investment;⁶⁶

⁶³ PAPA.

⁶⁴ Frontier CC analysis.

⁶⁵ Frontier CC analysis.

⁶⁶ Frontier CC analysis.

- that current STV1 content is primarily national ITV content and the main opt outs are news and current affairs. (These opt outs are likely to be influenced by the licence conditions); and
- that STV2 relies heavily on archive and repeat programming as part of its overall mix.

278. Given this evidence, it was difficult to predict whether STV would respond to the BBC Scotland channel. STV could commission new Scottish content for STV1 and STV2, particularly as the commissioning of new Scottish programming would be facilitated by the fact that STV operates its own successful production facilities.

279. On the specific topic of sports rights, we noted that STV2 continues to explore opportunities to acquire coverage of sport such as swimming and horse-racing.⁶⁷ BBC Scotland has not allocated specific funds from the increased budget of £18 million to sport, but BBC Scotland may spend some of the £18 million budget on additional sport coverage.⁶⁸

280. Finally, we are not aware of any new potential entrants into FTA broadcasting who would be deterred from investing in the sector as a result of the BBC Scotland proposals.

Conclusions

281. We concluded that the BBC Scotland proposals were unlikely to have an adverse impact on fair and effective competition between FTA broadcast channels. This was primarily for three reasons.

282. First, the forecast static impact on the STV1 and STV2 channels was small. Furthermore the evidence did not support the view that this would have an adverse impact on channel programming, nor STV's incentives to invest and innovate. In particular, there were few impediments to STV showing more Scottish focussed content.

283. Second, the forecast static impact on other FTA broadcasters, e.g. ITV Border, and Channel 4, was minimal and would be unlikely have an impact on their incentives to invest and innovate.

⁶⁷ STV [Press release](#), 2 August 2017.

⁶⁸ Section 4.2.3 gives more detail on the planned content mix of the channel.

284. Third, we are not aware of any new potential entrants who would be deterred from investing in the sector as a result of the BBC Scotland proposals.

6.4.2 Pay TV channels

285. We considered whether the proposals would be likely to have any static and/or dynamic impacts on pay TV channels.

Static analysis

286. The Frontier CC analysis did not forecast the impact on individual pay TV channels. The aggregate impact on all other channels, which included pay TV channels, was a reduction in viewing share of 0.2-0.3 percentage points. Since this reduction would be spread across multiple channels the static impact on the viewing shares of individual pay TV channels was expected to be minimal.

287. The quantitative survey carried out by Kantar TNS found that a small proportion ([<])% of the audience said they would spend less time watching Sky TV channels.⁶⁹ Since Sky operates both pay and free TV channels, this suggests that an even smaller proportion of the audience would spend less time watching Sky pay TV channels.

288. The PAPA qualitative research touched on the impact on other channels, with respondents feeling that the impact on the creative industries, through more competition for existing channels and investment in creative industries, would be positive.⁷⁰

Dynamic analysis

289. Given the evidence on the expected small size of any static impact on the pay TV channels, it is unlikely that the pay TV channels would change their behaviour in response to the launch of BBC Scotland. Furthermore, we are not aware of any new potential entrants into pay channel provision who would be deterred from investing in the sector as a result of the BBC Scotland proposals.

⁶⁹ Kantar TNS.

⁷⁰ PAPA.

Conclusions

290. Based on the evidence above, we concluded that the BBC Scotland proposals would be unlikely to have an adverse impact on fair and effective competition involving pay TV channels.

6.4.3 SVOD

291. We considered whether the proposal would be likely to have any static and/or dynamic impacts on the SVOD sector.

Static analysis

292. We considered the evidence on static impacts from the Frontier CC analysis, the Kantar TNS quantitative survey, the PAPA qualitative research and the feedback from the consultation.
293. The Frontier CC analysis did not model the potential impact on SVOD services. Frontier CC found that the launch of BBC Scotland was unlikely to affect viewers' decisions on whether to purchase a SVOD subscription. This was primarily because the new channel would have different characteristics to SVOD offers and there was no evidence to suggest that access to Scottish content was an important reason for subscribing to SVOD services.⁷¹
294. The quantitative survey carried out by Kantar TNS found that a small proportion ([<]%) of consumers said they would spend less time watching Netflix and an even smaller proportion ([<]%) said they would spend less time watching Amazon Prime.⁷² Since the revenues of SVOD suppliers are driven by subscriptions, reductions in hours of viewing do not have a direct impact on revenues, compared to commercial broadcasters like ITV that are funded substantially by advertising revenue.
295. In its feedback to the consultation a respondent thought that there would be a limited impact on SVOD services.

Dynamic analysis

296. Given the evidence on the small size of any static impact on the SVOD sector we concluded it was unlikely that the proposals would affect SVOD providers' incentives to invest and innovate. In addition, we are not aware of

⁷¹ Frontier CC analysis.

⁷² Kantar TNS.

any potential entrants who could be deterred from entering this sector as a result of the BBC Scotland proposals.

Conclusions

297. Based on the evidence above, we concluded that the BBC Scotland proposals would be unlikely to have an adverse impact on fair and effective competition involving SVOD providers.

6.4.4 TV platforms

298. We considered whether the proposals could affect competition downstream in the supply chain between TV platforms (e.g. Freesat, Freeview, Sky, and Virgin Media).

299. We looked at two ways in which the launch of BBC Scotland could potentially affect competition between distribution platforms. We considered whether the:

- BBC could influence competition by restricting which TV platforms could carry BBC Scotland; and/or
- Launch of BBC Scotland could affect the BBC's incentives, resulting in changes to the competitive strategies of the TV platforms the BBC co-owns.

Restrictions on carriage of BBC Scotland

300. The BBC would be unlikely to impose restrictions which limited the carriage of BBC Scotland to specific TV platforms and adversely affected competition in the TV platform sector. Such a policy would be contrary to the BBC's public purposes and Ofcom's requirements for the BBC:

“Ofcom requires that the BBC must offer the public services to third parties in response to reasonable requests for supply, except where the BBC has an objective justification for not doing so.

In offering the public services for supply, and in supplying those services, the BBC must act on a fair, reasonable and non-discriminatory basis.”⁷³

⁷³ Ofcom, [Distribution of BBC public services](#), 29 March 2017, Paragraph 3.32. See also clauses 61 and 62 of [The Agreement](#).

Competition between distribution platforms

301. The BBC would be unlikely to affect competition between TV platforms through its part ownership in Freesat, Freeview and YouView. In Freeview and YouView the BBC is a minority shareholder, substantially restricting its ability to influence competition through these platforms. The BBC and ITV are joint shareholders in Freesat and each shareholder can appoint an equal number of directors to the board. Board decisions require a majority, again substantially restricting the BBC's ability to influence competition through this platform.

Conclusions

302. Given the restrictions on the BBC's ability to act unilaterally, we concluded that the BBC Scotland proposals would be unlikely to have an adverse impact on fair and effective competition between TV platforms.

6.4.5 Content production

303. We considered whether the proposals could affect competition in content production, focussing on Scotland given that the BBC Scotland channel will broadcast more content for Scottish audiences.

Static analysis

304. We considered the evidence on static impacts from the Frontier CC analysis, the Kantar TNS quantitative survey, the PAPA qualitative research and the feedback from the consultation.

305. The Frontier CC analysis noted that the Scottish original production sector was worth approximately £190 million in 2014.⁷⁴ The incremental non-news investment of £11.2 million by the BBC in the new channel would represent an increase of 6% on the 2014 figure.⁷⁵

306. The Frontier CC analysis also considered the potential impact on the supply of sports rights to broadcasters. It noted that a marginal increase in sports rights investment by the BBC would be unlikely to raise other providers' costs significantly. This was in the context of BT and Sky spending over £19

⁷⁴ Frontier CC analysis.

⁷⁵ Frontier CC analysis.

million per year on Scottish football rights. This conclusion, however, was dependent on the BBC's plans for future sport investment.⁷⁶

307. The quantitative survey carried out by Kantar TNS reported that 77% of respondents approved that the channel would provide more opportunities for people making TV programmes in Scotland.⁷⁷
308. In the PAPA qualitative research respondents identified the potential benefits from increased spend on Scottish content, including investment in the Scottish economy, more jobs and more competition and opportunities for Scottish creative and production talent.⁷⁸
309. Some respondents to the consultation highlighted the positive effects of the proposals on content production in Scotland. Some concerns were expressed regarding the impact of the funding and how it was spent.
310. However one respondent thought that it was difficult to judge the impact.

Dynamic analysis

311. The static analysis supported the view that the proposals would expand the demand for Scottish content and have a positive impact on the sector. This should lead to increased investment in the sector, but precise predictions for individual suppliers or groups of suppliers were more difficult.

Conclusions

312. Based on the evidence above, we concluded that the proposed launch of the BBC Scotland channel would be likely to have a positive impact on the Scottish content sector. On the specific topic of sports rights, we noted that if BBC Scotland decided to invest in additional sport rights, this would reduce the budget for other types of content, reducing the net impact. Therefore it is unlikely that any purchase of sports rights by the BBC would have an adverse impact on fair and effective competition.

⁷⁶ Frontier CC.

⁷⁷ Kantar TNS.

⁷⁸ PAPA.

6.4.6 Journalism

313. The BBC Scotland proposals will involve an investment of £6.8 million in improved news production and the creation of around 80 journalism-related posts of varying experience for new entrants to established journalists. The posts will be filled through a fair, open and transparent recruitment process which would be open to internal and external candidates. We therefore considered potential static and dynamic impacts, including whether the recruitment could result in journalists leaving other news outlets to work for the BBC, and some rises in wages particularly for specialist correspondents.

Static analysis

314. The Frontier CC analysis noted that both the BBC and STV have recruited journalists recently, while structural changes in the newspaper industry have led to some Scottish newspapers reducing the number of journalists employed.⁷⁹

315. Some respondents to the consultation raised concerns regarding the impact on the supply of journalists, including whether this would lead to journalists leaving other suppliers to join the BBC.

Dynamic analysis

316. It is difficult to predict the dynamic impact of the BBC investment on the journalism sector though it is possible that the recruitment by the BBC will encourage more journalists to enter the sector.

Conclusions

317. Based on the evidence above, in particular relating to the recent losses of journalism posts at other news providers, we concluded that the creation of around 80 posts in journalism would be unlikely to have an adverse impact on the supply of journalists, including the supply of journalists to other providers of Scottish news. We consider the potential wider and cumulative impacts on the news sector in section 6.5 below.

⁷⁹ Frontier CC analysis.

6.5 Potential wider and cumulative impacts

318. We considered whether the proposals could lead to any wider or cumulative impacts on fair and effective competition in a number of sectors.

- The impact of potential spillovers between the proposed BBC Scotland channel and other BBC services. For example whether the BBC Scotland proposals could have a positive impact on the quality and quantity of news available on BBC Radio Scotland and the BBC website.
- The cumulative effect of the proposals on individual sectors. For example, whether radio stations could be affected by the launch of BBC Scotland and any improvements to Radio Scotland or Radio nan Gàidheal - due to, for example, re-versioning of content commissioned for BBC Scotland.
- The potential cumulative impact of the proposals on competitors who operate in multiple sectors. For example, whether STV (which operates television channels and a news website) could be affected in multiple ways by the proposed investment.

319. A more detailed discussion of the potential wider and cumulative impacts and supporting analysis is included in Annex 2.

6.5.1 Potential spillovers

320. We considered whether:

- BBC Radio Scotland could benefit from improved news output;
- The BBC News website could benefit from improved news coverage of Scottish affairs and news covered from a Scottish perspective;
- BBC Alba and/or BBC Radio nan Gàidheal could benefit from the improved weekend news/and or co-commissioning opportunities with the new channel; and
- BBC iPlayer could benefit from content created for the new channel.

BBC Radio Scotland

321. We concluded that any changes to BBC Radio Scotland which occurred as a result of the additional investment in news would be unlikely to result in an adverse impact on fair and effective competition. This was mainly because

only part of BBC Radio Scotland's schedule is devoted to news. Therefore any uplift in the performance of the station is likely to be minor.

BBC Online News

322. We concluded any additional content available on BBC Online News Scotland due to, for example, re-versioning of footage made for the hour long bulletin, would be unlikely to have an adverse impact on fair and effective competition.

323. This was because:

- The BBC Scotland investment will not lead to a change in the current regional news model and therefore BBC Online News Scotland is unlikely to crowd out other news providers.
- Any additional content available online on the BBC News website is likely to be more focussed on longer investigative pieces. This should lead to further differentiation between the content available on bbc.co.uk/news/scotland and other Scottish news sites. This should help to minimise the impact on other providers.

BBC Alba and BBC Radio nan Gàidheal

324. We considered whether the proposals could lead to some improvements in the quality and quantity of news on BBC Alba and BBC Radio nan Gàidheal. We concluded that the small scale of the proposed enhancements and the distinctiveness of both of these services meant that the changes would be unlikely to lead to an adverse impact on fair and effective competition.

325. Although co-commissioning opportunities will lead to up to an additional 100 hours of new non-news programmes for use on BBC Alba, there are no plans to change the broadcast hours of BBC Alba. Any co-commissioned content would replace existing content (probably repeats) on BBC Alba. Therefore we concluded the net impact of this change on viewing of BBC Alba was likely to be small and was unlikely to result in an adverse impact on fair and effective competition.

BBC iPlayer

326. The proposals will result in an increase in the hours of programming available on iPlayer. However, we factored this into our assessment as our viewing forecasts included an uplift of 2.3% to reflect this change. We concluded that

this uplift in iPlayer viewing would be unlikely to have an adverse impact on fair and effective competition.⁸⁰

6.5.2 Cumulative impact on individual sectors

327. We assessed whether the new channel, when considered alongside other proposed changes to the BBC's public services (e.g. improvements to BBC Alba and bbc.co.uk/news/scotland) could have an impact on:

- FTA broadcasters;
- written news provision; and
- providers of radio services in Scotland.

FTA broadcasters

328. We concluded that the new channel, when considered in combination with changes to other BBC services, was unlikely to have any adverse impacts on fair and effective competition between FTA broadcasters. This was because, as discussed in section 6.5.1, the impacts of each change on a standalone basis were small, and so the cumulative impact of each individual change was also unlikely to affect their incentives to invest and innovate.

Written news provision

329. We concluded that the cumulative changes would be unlikely to have an adverse impact on fair and effective competition in the provision of written news. This was primarily because: (a) the changes to news on TV and radio were expected to have a limited impact; and (b) the news investment would lead to increased differentiation between the BBC and other providers.

Radio

330. We concluded that the improvements to the news coverage on BBC Radio Scotland and BBC Radio nan Gàidheal, even when considered in combination with the improved news coverage on bbc.co.uk/news/scotland and the launch of the BBC Scotland channel, would be unlikely to have an adverse impact on fair and effective competition. This was primarily because evidence from

⁸⁰ According to BBC Digital Analytics in 2016 iPlayer viewing was 952 million hours. We forecast that in 2019 viewing of the BBC Scotland channel will be c63 million hours, of which c1.4 million hours will be via iPlayer.

multiple sources supported the view that radio is a separate market to other media.

6.5.3 Cumulative impact on competitors operating in multiple sectors

331. We considered whether the launch of the new channel and the associated changes could have a cumulative impact on individual providers that operate in multiple sectors.
332. In particular, we have considered the potential impact on STV, which operates the STV1 and STV2 channels, a news website, a production company, the STV Player on-demand service, and an app providing news, weather, and sports reports.
333. Our assessment, based on the Frontier CC analysis, is that STV was likely to lose some viewers due to the launch of BBC Scotland and could be affected by BBC Scotland's investment in news. It could also gain increased commission revenue through STV Productions. Overall, the net static impact on STV revenues could be positive.
334. Our analysis suggested the dynamic impacts on STV were also likely to be small.
335. We concluded that the cumulative impact was unlikely to affect negatively STV's incentives to invest and innovate. We reached the same conclusion for other operators who offer multiple services e.g. ITV Border and Sky.

6.6 Summary of conclusions

336. We analysed the potential impact of the BBC Scotland proposals on multiple sectors: FTA broadcasting, Pay TV channels, SVOD, TV platforms, content production and journalism. We also analysed the potential wider and cumulative effects.
337. We concluded that the BBC Scotland proposals were not likely to have an adverse impact on fair and effective competition in any of these sectors.

7 The Public Interest Test

338. In this section we present our assessment of how the new BBC Scotland channel satisfies the public interest test.

339. There are three steps to the public interest test set out in Clause 8(1) of the Agreement. The BBC must be satisfied that all of the following criteria are met:

- the proposed change to the UK public services contributes to the fulfilment of the Mission and the promotion of one or more of the BBC's Public Purposes;
- it has taken reasonable steps to ensure that the proposed change has no adverse impact on fair and effective competition which is not necessary for the effective fulfilment of the Mission and the promotion of the Public Purposes; and
- the public value of the proposed change justifies any adverse impact on fair and effective competition.

396. In our view all three components of the test have been clearly met.

7.1 Contribution to the mission and public purposes

340. In this section we consider the extent to which the new BBC Scotland channel will contribute to the fulfilment of the BBC's Mission⁸¹ and Public Purposes⁸². We also consider the direct benefits to consumers and the costs of the proposals in order to provide a view of the total public value of the proposals net of the costs as this is relevant to step three of the test.

7.1.1 Fulfilling the BBC's mission and promoting the public purposes

341. The new BBC channel will strongly contribute to the BBC Mission and the promotion of the following Public Purposes:

- To provide impartial news and information to help people understand and engage with the world around them;

⁸¹ The Mission of the BBC is to act in the public interest, serving all audiences through the provision of impartial, high-quality and distinctive output and services which inform, educate and entertain. See Article 5 of the BBC Charter, 2016.

⁸² The Public Purposes of the BBC are set out in Article 6 of the BBC Charter 2016.

- To show the most creative, highest quality and distinctive output and services; and
 - To reflect, represent and serve the diverse communities of all of the United Kingdom's nations and regions and, in doing so, support the creative economy across the United Kingdom.
342. The new channel will provide more choice for audiences in Scotland to consume the BBC's news coverage in and about Scotland in more depth. The integrated news programme on BBC Scotland will cover major local, regional, national, UK and global issues from a Scottish perspective and for Scottish audiences. The additional investment will also improve coverage of Scotland in network news programmes broadcast across the UK. We believe this new offer will further enhance how the BBC delivers high quality, accurate and impartial news in Scotland and we want to improve our offer to younger⁸³ audiences.
343. Our quantitative research found that 63% of respondents approved of our proposals for news, and our qualitative research found that a third of those with concerns about the BBC's news coverage in Scotland were more favourably disposed to the BBC having seen the proposals.
344. The new channel will show the most creative, highest quality and distinctive output. BBC Scotland will be unique as the only national English-language channel made in Scotland for the people of Scotland, and broadcast across all of Scotland. Its multi-genre offer will have creativity and quality at its heart, offering distinctive coverage of local arts and culture, and it will be prepared to take creative risks including developing fresh approaches and innovative content. Respondents to our research strongly approved of the focus on Scottish audiences (70%) and the multi-genre approach (70%).
345. BBC Scotland will also help ensure that the BBC better reflects the diversity of the UK and that its output will accurately and authentically portray the lives of the people of Scotland.
346. The increased investment in programming originated in Scotland and the rebalancing of licence fee spend across the UK will provide a boost to the creative economy in Scotland and contribute to its development. The additional investment of £18 million by the BBC will represent an increase of 9% in the Scottish original production sector based on 2014 data.

⁸³ The age profile of audiences for opts programming in Scotland skews towards the over 55s.

347. The new channel will also provide more opportunities to grow and develop talent both on- and off-screen, bringing benefits for the creative industries in Scotland. Our research showed very strong support for providing more opportunities for people making TV programmes in Scotland, with 77% of respondents approving.

7.1.2 The benefits to viewers/consumers

348. Our research indicates that 52% of viewers will watch the new channel regularly, and the economic analysis we have carried out suggests that the BBC Scotland channel could have an average weekly reach in Scotland ranging between 5.0% and 11.9% in its early years.

349. There was broad cross-party support for the channel in the Scottish Parliament⁸⁴.

350. While the audience research findings were strongly positive about the impact on Scottish society more widely, respondents raised some questions about the potential quality of the programming, the level of the budget, and the prevalence of news in the schedule.

351. The BBC must fulfil its editorial vision for the channel to meet these challenges and to ensure that its content is distinctive, creative and high-quality. BBC Scotland is a channel that Scottish audiences will want to watch and will be proud of. The BBC will also continue to respond and develop programmes based on audience feedback.

7.1.3 Costs of the proposal

352. The costs of the proposal will be consistent with that of other BBC channels broadcasting similar hours and with a similar budget (e.g. BBC Four) and the channel will be as cost effective at delivering viewing in Scotland as other alternative BBC services assuming that the channel performs in line with our forecasts during its early years.

⁸⁴ [Meeting of the Parliament on 1 March 2017](#)

7.2 Assessment of the impact of the proposals on fair and effective competition and reasonable steps to mitigate unnecessary adverse impacts on competition

353. In assessing the second part of the test, first, we analyse the impact of the proposals on fair and effective competition; then, second, we consider what reasonable steps we have taken to ensure to mitigate any unnecessary adverse effects of the proposed change.

7.2.1 Assessment of the impact on fair and effective competition

354. We have considered the sectors and services most likely to be affected by the revised BBC Scotland proposal and the potential impacts on competition in these sectors.
355. We concluded that the greatest impact would be on providers of FTA channels. Our analysis suggests that BBC Scotland will gain a viewing share of 0.9%-2.0% in its hours of 7pm to midnight, or 0.4%-1.0% share of all TV viewing. Overall, this could lead to BBC channels gaining between 0.2-0.5 percentage points of viewing in Scotland. This could reduce commercial advertising revenues (including digital) by between £1 million to £2 million across all channels, compared to total UK TV advertising revenue of about £4 billion. Overall, the largest individual impact would be on STVI (who may see a small loss of viewing share of up to [X] percentage points), suggesting their commercial advertising revenue could decline by between £[X] to £[X], equivalent to a small proportionate ([X]%) reduction in the company's 2016 advertising revenues of £100 million⁸⁵.
356. This impact would be unlikely to substantially crowd out future STV investment in programming of specific interest to audiences in Scotland. It is also worth noting that STV Productions (part of the STV group) is likely to benefit from the increased BBC investment in Scotland.
357. Our analysis suggests that there will be no significant impact on pay TV channels or SVOD platforms, little if any impact on the market for news journalists, and is not expected to harm competition in online news as the resulting news content will be distinctive from that of other providers.

⁸⁵ Note these figures are for 2019 and reflect the BBC's final proposals for the channel, as described in Box 4 in section 4.3.

358. As such there seems to be limited risk that the BBC's proposals would have an adverse impact on fair and effective competition in any of the sectors we have considered.

7.2.2 Reasonable steps to mitigate any unnecessary adverse impacts

359. The BBC has taken reasonable steps to ensure that the proposed change has no adverse impact on fair and effective competition which is not necessary for the effective fulfilment of the Mission and the Public Purposes.

360. Firstly, the channel will provide a unique and distinctive proposition for audiences in Scotland that gives them more choice. The closest comparable commercial channels in Scotland to the new channel will be STV1 and STV2. However, the evidence suggests that they will not be crowded out by the BBC's investment in the new channel, or that they will be less likely to innovate or invest less.

361. Secondly, the BBC has scheduled the news to create a new offer for audiences that avoids clashing with other broadcasters on the timing of their news bulletins. Furthermore, while there is a risk that the content made by the strengthened news team in Scotland could have spillover impacts on providers of news online, we are confident that the BBC's online news offer in Scotland will be sufficiently distinctive from that provided commercially.

362. Thirdly, the BBC has committed to launch a journalism trainee scheme to try to ensure that the recruitment of additional journalists by the BBC does not bid up the wages of journalists.

363. Fourthly, the BBC has committed to limiting daytime content on BBC Scotland to no more than 150 hours a year.

7.3 The public value justifies any adverse impact on fair and effective competition

364. In line with the requirements of the final step of the public interest test we consider whether the public value of the BBC's proposals justifies any adverse impact on fair and effective competition and whether further mitigations would be appropriate.

7.3.1 Public value assessment

365. Our public value assessment, as outlined in section 5, concluded that our proposals for a new BBC Scotland TV channel would have ‘high’ public value.

- Strongly contribute to the Mission and Public Purposes. Consequently the contribution of this driver to public value is ‘high’.
- Reach for the channel is in line with what we would expect. Personal viewer value from the proposals is likely to be ‘medium’ to ‘high’.
- Costs for the channel are in line with that for other BBC services of a similar budget and broadcasting similar hours which offer good value for money and therefore we conclude that the contribution of the cost driver to public value is ‘neutral’.

7.3.2 Impact on fair and effective competition

366. Our assessment of the impact of the proposals on fair and effective competition, as outlined in section 6, analysed the potential impact of the BBC Scotland proposal on multiple sectors: FTA broadcasting, Pay TV channels, SVOD, TV platforms, content production and journalism. We also analysed the potential wider and cumulative effects. We concluded that:

- The new channel was unlikely to have an adverse impact on fair and effective competition in any of these sectors.
- BBC Scotland’s plans to increase its news coverage – and specifically the potential impact of the hour long television news bulletin on the availability of content on the BBC News website and the implications of the BBC’s plan to create an additional 80 posts in journalism – could, under limited circumstances cause some adverse impact on fair and effective competition e.g. if there were a shortage of journalists.

367. However, as described below, it would not be possible to mitigate these impacts without diminishing the public value of the proposals.

Impacts on online news providers

368. It is clearly desirable that BBC Scotland takes advantages of the economies of scope which will enable it to enhance its online and mobile offer at a lower cost than if it did so in the absence of the launch of the channel. Providing more bespoke content for the website, BBC News app, and social media

platforms should help to attract younger audiences to the BBC's services, thus improving the public value of the proposals.

369. However, we also recognise that the BBC's activity in this area could, under limited circumstances, have a potential adverse impact on fair and effective competition on newspapers in Scotland. As BBC Scotland re-versions its news offer online, it will focus on how its service can be distinctive to that provided by commercial news providers, for example, by providing longer, investigative stories online. This will increase public value by increasing the depth and breadth of news coverage while minimising any impact on fair and effective competition.

Impacts in the journalism sector

370. The BBC's plans to expand the number posts in journalism could result in increased demand for journalists. If there is a limited supply of journalists with the right skills, then this could theoretically drive increases in journalists' wages, resulting in higher costs of news providers, including the BBC. We will make efforts to grow the supply of high quality journalists through the creation of a comprehensive journalism training scheme that will benefit all news providers.

7.3.3 Our conclusion

371. In conclusion, the BBC Board has decided that the proposal for the BBC Scotland channel passes the public interest test.
372. The new channel will strongly contribute to the fulfilment of the BBC's Mission and promotion of its Public Purposes especially:
- To provide impartial news and information;
 - Show the most creative, high quality and distinctive output and services;
 - Reflect, represent and serve the diverse communities of the UK's nations and regions; and
 - Support the creative economy across the UK.
373. Also, while the proposals may have a relatively small adverse impact on fair and effective competition we have taken all reasonable steps to mitigate this risk. Any further steps to mitigate the impact (e.g. not re-versioning some news coverage produced for the television bulletin for use online) would be counterproductive as they would diminish the public value of the proposal.

374. Taking these into account we consider that the public value of the new BBC Scotland channel justifies any remaining small impact on fair and effective competition.
375. As all three components of the public interest test are satisfied, and in line with Clause 8(3) of the Agreement, the BBC has now referred the public interest test to Ofcom for its consideration.

8. Implications for Ofcom's operating licence

376. As highlighted in our response to Ofcom's consultation on the Operating Licence⁸⁶, the launch of BBC Scotland will affect a number of the requirements in the BBC Operating Licence.
377. In its analysis of responses to the consultation on the BBC's Operating Licence Ofcom stated that in the context of the new BBC Scotland channel:
- 'Consideration of whether new regulatory conditions or changes to existing conditions were required for a new service proposed by the BBC would take place following our competition procedures'⁸⁷.*
378. However, we note that should the channel launch in Autumn 2018 (and as a result, BBC Two Scotland closes), this will impact on the BBC's ability to meet some of its obligations for 2018 – in particular the peak and shoulder quotas on hours of non-news programming⁸⁸.
379. We also note that the definitions of regional and network programming in the BBC Agreement⁸⁹ taken together confine regional programming to only those programmes shown on a variation to an existing service. Under these definitions we would expect that programmes on the proposed BBC Scotland channel would, somewhat counter-intuitively, be classed as network programmes.
380. We would therefore like to discuss both of these points in advance of Ofcom completing its competition procedures as these issues could have an impact on commissioning decisions that need to be taken before Ofcom's procedure is likely to be completed.
381. We will write to Ofcom in due course to set out our views on how the quotas that are affected by our proposals might apply in the year that the channel launches. We will also set out our views on whether it would be appropriate for Ofcom to consider classifying programmes on the channel as non-network for the purposes of monitoring the BBC's percentage of

⁸⁶ See paragraph 6.9 of the [BBC's response to Ofcom's consultation on the draft operating licence for the BBC's UK Public Services](#).

⁸⁷ See p56 of Ofcom, [Holding the BBC to Account for Delivering for Audiences](#), Annexes, 13 Oct 2017.

⁸⁸ See 2.67.4 and 2.67.5 on p28, Ofcom, [Operating licence for the BBC's UK Public Services](#), issued on 13 October 2017.

⁸⁹ Schedule 2, paragraphs 6(5) and 7(3).

network production produced outside of London, in line with its current treatment of BBC Alba.

Annex I: Scope of this public interest test

1. The Agreement only requires material changes to undergo a public interest test, where a material change is defined as launch of a new service or a change to an existing service which has a significant adverse impact on fair and effective competition.
2. As we have noted throughout this document, the launch of the BBC Scotland channel will result in changes to several other BBC services.
 - The closure of BBC Two Scotland will mean that in Scotland viewers of BBC Two will now be able to watch network programmes in the slots (400 hours in 2016) that previously showed opt-out programmes.
 - BBC Four will move further down the EPG in Scotland.
 - BBC Alba may benefit from economies of scope for example, if a programme is commissioned for BBC Scotland and at the same time the content supplier is asked to make additional content for BBC Alba.
 - BBC Online will change as a result of:
 - Making BBC Scotland available as a channel on iPlayer; and
 - The re-versioning of content made for the news bulletin for inclusion on BBC Online News Scotland pages.
 - Potential improvements to news reporting of Scotland-related issues on national TV and radio services – though note we have no plans to increase the number or length of radio and TV news bulletins.
3. None of the changes listed below, when considered in isolation, are likely to be material (i.e. have an adverse impact on fair and effective competition) because:
 - The replacement of opt programming for audiences in Scotland on BBC Two with network programmes will result in a loss of viewing of the channel. This is because opt programming on BBC Two tends to outperform network programming that the opts are displacing.
 - The replacement of BBC Four on the EPG with BBC Scotland will result in reduced viewing for BBC Four in Scotland.

- Any additional content on BBC Alba will displace existing programmes as there are no plans to increase its broadcast hours. Therefore any increased performance of the channel is unlikely to be significant. Furthermore there are few close substitutes for BBC Alba due to its distinctiveness. On this basis any new content available on BBC Alba due to co-commissioning or the investment in the hour-long news bulletin on BBC Scotland is unlikely to crowd out commercial provision.
 - The changes to the BBC Online news offer for audiences in Scotland are unlikely to have a significant impact on fair and effective competition as the resulting online news content will be distinctive to that of other providers.
4. For these reasons we have not included these changes in the scope of this public interest test. We have, however, factored in the inclusion of BBC Scotland programming on iPlayer in our analysis of viewing of the BBC Scotland channel and therefore have considered this change within our assessment of the proposals on fair and effective competition.
 5. Nevertheless, we recognise that some of these changes to the BBC public services, when considered alongside the new channel, could potentially have adverse impacts on fair and effective competition. For this reason, we discuss this possibility in section 6.5 of this document and in more detail in Annex 2.
 6. In addition, as announced on 22 February 2017, we are also planning to invest
 - A further £1.2 million in BBC Alba;
 - £20 million in BBC's network TV output, with a particular focus on the commissioning of drama and factual programmes; and
 - £1 million in online personalisation.
 7. We consider that these changes are 'business as usual' developments which would not warrant a materiality assessment in line with paragraph 2.3 of the BBC's Policy on Material Changes.

Annex 2: Wider and cumulative potential impacts

- I. This annex contains our detailed analysis of the potential wider and cumulative effects of the BBC Scotland proposals. We assessed these potential effects using the framework below.
 - First, we considered potential complementarities – whether the launch of BBC Scotland could have a positive impact on demand for existing BBC services, even if these services did not change. Potentially, any changes in demand could have an impact on other providers who compete with the complementary services. For example, whether a large investment in BBC Alba could stimulate interest in the Gaelic language, increasing demand for other BBC services provided in Gaelic, including Radio nan Gàidheal and Gaelic podcasts. This could occur even if there were no change in the other BBC services provided in Gaelic.⁹⁰
 - Second, we considered whether there were any potential spillovers between the proposed BBC Scotland service and other BBC services. The BBC Scotland proposals could have a positive impact on the quantity and quality of news services on BBC Radio Scotland and the BBC website. This could increase the use of these services, which could affect other providers.
 - Third, we considered whether the cumulative effect of the proposals could have an impact on individual sectors. These cumulative effects could occur if changes to multiple BBC services have an impact on competitors operating in an individual sector. For example, Scottish radio stations could be affected by the cumulative impact of the launch of BBC Scotland and any resultant improvements to Radio Scotland and Radio nan Gàidheal.

⁹⁰ A BBC investment could have positive impacts on the demand for non-BBC services, thus affecting other providers. For example, *The Great British Bake Off* affected demand for baking related products, though the BBC's editorial guidelines prohibit the promotion of particular brands and therefore no one particular supplier of baking related products should have been favoured.

- Fourth, we considered whether there could be any potential cumulative impact of the proposals on competitors who operate in multiple sectors, for example, competitors who operate both television channels and a news website.

Potential complementarities

2. We considered whether the proposals could have a positive impact on demand for other unchanged existing BBC services and any subsequent impact on other suppliers.
3. We were not able to identify any substantial complementarities between the proposed BBC Scotland channel and other BBC services.
4. The qualitative research by PAPA supported the view that the BBC proposals would be a “good thing” for the BBC to do in Scotland. The channel could therefore increase the affinity of Scottish audiences with the BBC, leading to an increase in demand for BBC services. However, confidential research carried out by one respondent to our consultation suggested that only a small number thought that their viewing of BBC Scotland would result in them switching away from other media sources.
5. This suggested any complementarities would have marginal impacts on those competing with BBC services. Consequently, we concluded that complementarities between the proposals and other BBC services, per se, would be unlikely to have an adverse impact on fair and effective competition.

Potential spillovers

6. We considered whether the launch of BBC Scotland could create spillovers which affect the quantity and quality of other BBC services, thus affecting their competitors. We considered whether:
 - BBC Radio Scotland could benefit from improved news output;
 - BBC Online News Scotland could benefit from improved news coverage of Scottish affairs and news covered from a Scottish perspective;
 - BBC Alba could benefit from the improved weekend news and/or co-commissioning opportunities with the new channel;

- BBC Radio nan Gàidheal could benefit from improved news quality; and
- BBC iPlayer could benefit from content created for the new channel.

BBC Radio Scotland

7. As discussed above in section 4.4, the BBC Scotland proposals involve increased investment in news production. Some material which is produced for the BBC Scotland channel may be re-versioned for news on Radio Scotland. We examined the weekday schedule for Radio Scotland. *Good Morning Scotland* (GMS) is a mixture of news, travel, weather and sports. *Newsdrive* contains a mixture of news, comment and discussion. Both of these perform well relative to other BBC Radio Scotland shows in the weekday and the additional news investment could lead to higher ratings.
8. These figures, however, should be seen in the context of BBC Radio Scotland having a share of less than 10% of listeners⁹¹.
9. Furthermore, the other commercial radio stations do not offer the extensive news coverage offered by Radio Scotland. There is no talk radio station focussed on Scottish listeners and the larger commercial operators, Clyde 1, Forth 1 and Smooth Scotland, focus on music, with limited news bulletins. For example the news on Clyde 1 consists of two minute news bulletins every hour.
10. Finally, the demographics of Radio Scotland differ from those of the commercial radio stations, as shown in Table 6 below. This was also consistent with the view that any changes to Radio Scotland news were likely to have a limited impact on commercial providers.

Table 6: Radio demographics for Q2 2017

Radio Station	% Female	% Aged 55+	% ABC I
Radio Scotland	38.8	55.9	61.6
Clyde 1	[X]	[X]	[X]
Clyde 2	[X]	[X]	[X]

⁹¹ Source: Analysis of RAJAR data

Forth 1	[X]	[X]	[X]
Forth 2	[X]	[X]	[X]
Capital Scotland	[X]	[X]	[X]
Heart Scotland	[X]	[X]	[X]
Smooth Scotland	[X]	[X]	[X]

Source: BBC analysis of RAJAR data and BBC Radio Scotland analysis.

11. Therefore, we concluded that any potential changes to Radio Scotland per se would be unlikely to have an adverse impact on fair and effective competition.

BBC Online News Scotland

12. We considered whether the increased investment in BBC Online News Scotland could affect competition in online news in Scotland. We considered the evidence on this topic from the Frontier CC analysis, the Kantar TNS survey, the PAPA research, and the responses to the BBC consultations. We also conducted further analysis to understand in more detail the different online news offers in Scotland.
13. The evidence in the Frontier CC analysis noted that structural changes in the newspaper industry have resulted in Scottish newspapers losing journalists.⁹²
14. In the PAPA research qualitative research, participants identified the potential benefits from increased spend on journalists, which could improve regional news coverage outside the Central Belt.⁹³
15. The Kantar TNS work did not cover the potential impact on alternative suppliers of news.
16. Some of the responses to the consultation expressed views on the impact of the news investment. These included concerns regarding increased local

⁹² Frontier CC analysis.

⁹³ PAPA.

content being made available across different BBC services, the impact of the recruitment of journalists, risks to plurality and the threats to existing news providers.

Analysis of Scottish online news offers

17. In this section we provide more detail on the different online news offers in Scotland to inform the assessment of the potential impact of the BBC Scotland investment. First, we describe the current BBC Online News Scotland service. Second, we describe other news providers' online offers. Third, we provide a comparison of BBC Online News Scotland with other providers. Finally, we describe how the BBC in Scotland plans to improve the BBC Online News Scotland offer, comparing and contrasting this with other online providers of Scottish news.

Current BBC Online News Scotland service

18. The BBC Online News Scotland website focuses on Scottish news and contains subsections covering Scottish politics, Scotland business and six regional subsections (Edinburgh, Fife and East; Glasgow and West; Highlands and Islands; North East, Orkney and Shetland; South; and Tayside and Central). It also offers a link to the BBC Alba Gaelic news page. Although the BBC Online News Scotland website features some links to Scottish sports stories, this sport news sits within the BBC Sport section at <http://www.bbc.co.uk/sport/scotland>.
19. The site currently has a team of 28 dedicated full-time staff producing content for the site and associated social media accounts. Of this 28, six are regional journalists, each reporting on one of the six regions described above.
20. There are around 250 new text stories each week, with most of these created during week days. The number of regional stories varies each day, depending on the importance of the stories.⁹⁴ For example, on 20 September 2017 there were four stories published in the Tayside and Central area of the site. On the same day there were five stories published in the North East Scotland, Orkney and Shetland area.

⁹⁴ There is no clear definition which can be used to classify stories as local, regional or national. Almost every story will have a local element. Regional and national news is news that has interest or relevance beyond its immediate locality. The BBC is unlikely to cover the staples of local press journalism: such as, for example, planning disputes, road closures, pot holes and unclean streets unless they are symptomatic of a national issue.

21. In addition to these text-based stories, BBC Scotland also produces short videos covering a variety of topics. These can be news stories (e.g. reporting of a [warship launch](#)) or more magazine type items (e.g. the impact [on relatives of long-term missing people](#)). In addition, it provides a [rolling text and live video](#) service covering the debates and committees of the Scottish Parliament. As well as these Scottish-based stories, non-Scotland stories may also appear on the front page if they have relevance to a Scottish audience.

Examples of other online news providers

22. In this section we summarise some examples of other online news offers in Scotland⁹⁵. Various UK titles such as The Daily Mail, The Sun and The Times also offer some dedicated Scottish content on their websites. There are also some newer online publications such as [Bella Caledonia](#) and [CommonSpace](#) which have gained popularity following the referendum on Scottish independence and feature opinion and commentary as an alternative to mainstream titles.

- [Ardrossan and Saltcoats Herald](#) – operated by the Newsquest group, it covers local news. There is no news video content on the site, nor coverage of national news. The paper has a [Facebook page](#).
- [Buchan Observer](#) – owned by a large newspaper group (Johnston Press). It covers local and regional news, with minimal coverage of news outside the Buchan area. There is no video news content on the site. The paper has a [Facebook page](#).
- [The Courier](#) – covers local and regional news, with minimal coverage of news outside the Fife and Tayside area. There is some video content, but this is largely embedded video from other sites like Twitter and YouTube. The paper has a [Facebook page](#).
- [Daily Record](#) – covers local, regional, Scottish, UK and world news. The focus is on Scottish news, sport, entertainment and opinion, linked to the print coverage of the Daily Record, Sunday Mail, and Media Scotland's local newspaper titles, with less coverage of international news. There is limited self-generated video content. It has recently launched a Glasgow Live site which focuses on the city,

⁹⁵ This summary is based on a review of the sites in September 2017.

entertainment, and what's on for a younger audience. The paper has a [Facebook page](#).

- [Herald Scotland](#) – covers regional, Scottish, UK and World news. It is traditionally seen as a quality broadsheet aimed at readers in the West of Scotland. It has a strong opinion section.⁹⁶ Its online content is linked to its sister titles the Sunday Herald, which has a greater international focus, and the Evening Times, which concentrates on Glasgow. A further sister title The National has its own website and is linked closely to political coverage and its support for Scottish independence. There is little video news content. The Herald (and its associated Newsquest titles) is among the few Scottish-based newspapers to offer a subscription. The paper has a [Facebook page](#).
- [John o'Groat Journal](#) – owned by the Scottish Provincial Press and covers local news. There is minimal coverage of news outside the local area and no video news content. The paper has a [Facebook page](#).
- [Moffat News](#) – the Moffat News online is placed in a section of the DNG Media news group website and covers local Moffat stories. There is a [Facebook page](#), which covers both the Annandale Herald and the Moffat News.
- [Perthshire Advertiser](#) – owned by the Trinity Mirror group. Local news is located on a subdirectory of the Daily Record site. This subdirectory focuses on Perthshire news, while the Daily Record site covers a wider range of topics. The paper has a [Facebook page](#).
- [Press and Journal](#) – covers local and regional news, with minimal coverage of news outside the north east of Scotland. The paper is heavily editorialised, with different agendas for each community. There is little video news content on the site. The paper offers a [digital subscription service](#). The paper has a [Facebook page](#).
- [Scotsman](#) – covers local, regional, Scottish, UK and world news. The website has an international readership and also a heavy focus on Edinburgh news, in line with the readership base in the east of Scotland and its sister title the Evening News. It also has an opinion

⁹⁶ See http://advertising.heraldandtimeslabs.com/wp-content/uploads/2014/04/heritage_fact-sheet_2015.pdf

section with regular columnists. There is little video news content on the site. The paper has a [Facebook page](#).

- [STV online](#) – covers regional, Scottish, UK and world news. The website has some social media content, especially linked to the content of its STV2 channel. STV news has a [Facebook page](#).

Comparison with BBC Online News Scotland

23. The BBC Online News Scotland website has both similarities and differences with the other news providers. We first discuss geographic coverage and then type of content.

(i) Geographic coverage

- World and UK News – BBC Online News Scotland does not cover this topic, unlike some of the larger Scottish online sites like the Daily Record and Scotsman. Consequently, there is no current overlap here.⁹⁷
- Scottish News – this is the main area of focus of the BBC Online News Scotland site. The main areas of overlap are general news, politics, business and sport. There is little overlap in lifestyle, entertainment, what's on, arts and opinion pieces.
- Regional news – BBC Online News Scotland currently has a limited regional coverage. This is a similar level of coverage to some of the larger sites, e.g. the Daily Record's coverage of [Dumfries and Galloway](#). The BBC does not have the same level of regional coverage as the larger regional newspapers like The Courier and Press and Journal.
- Local news – BBC Online News Scotland does not cover local news which is not of regional or national importance. There is therefore no overlap with the local coverage of sites like the Press and Journal.

(ii) Type of content

24. The business models of commercial online newspapers focus on a high volume of popular stories. This model helps drive traffic to their sites, resulting in higher advertising revenues. Stories are primarily text based and short, with minimal video content. Few Scottish newspapers have a subscription service.

⁹⁷ We recognise that the BBC online site does cover world news.

25. BBC Online News Scotland differs in its more prominent use of video reporting. It is the only site, aside from STV, to create significant amounts of video. It also provides a public service livestream and text service covering the Scottish Parliament which would not be sustainable on a commercial basis. Unlike newspaper or other online news websites, BBC Online News has to follow the same values of impartiality as all BBC services.
26. There is currently considerable coverage of sport on the BBC website, including football and rugby union. This overlaps with the extensive coverage of major sports on the other Scottish news websites. There is less overlap in regional sports news. For example, BBC Scotland sports would not cover local bowling league or darts leagues results, which may appear in local newspapers.

Future plans

27. The focus of the BBC Scotland investment is the hour long TV news programme for the new channel. This new investment will enhance other BBC news services in Scotland, including *Reporting Scotland*, Radio Scotland and the BBC website. The aim is to increase the number of longer form, bottom-up investigations which influence the news agenda in Scotland.
28. The online news team in Scotland intends to develop more feature led, longer form stories based on in-depth investigations. Due to the costs associated with these investigations, it is difficult for commercial operators to fund this type of journalism. Consequently, this investment should lead to an increase in the level of differentiation between BBC Online News Scotland and other news providers in Scotland. We set have out some of examples of these types of investigations, and the integration between television and website output, in paragraph III above.
29. The BBC has worked with journalists from other newspapers in the past on these types of investigations and would aim to continue this kind of work. Examples include investigations of child abuse in football with the Daily Record⁹⁸ and into the Smyllum orphanage with the Sunday Post.⁹⁹

⁹⁸ <http://www.bbc.co.uk/programmes/b08ntbf4> and <http://www.dailyrecord.co.uk/news/scottish-news/new-allegations-sexual-abuse-against-10197571>

30. The aim is not to expand coverage of regional news and compete more closely with local press in Scotland. The BBC Scotland investment will not lead to a change in the current regional news model. In line with this, while overall staffing levels are expected to rise from 28 to 35, there will not be an increase in the number of the current six regional journalists. The news programme is also likely to include a daily sport news update.
31. In summary, the investment should lead to further differentiation and distinctiveness between BBC Online New Scotland and other Scottish news sites. This should help to minimise the impact on other providers.

Conclusion

32. Based on the evidence above, we concluded that the proposed changes would be unlikely to have an adverse impact on fair and effective competition as BBC Online's news offer for people in Scotland will provide content which is differentiated from and distinctive to that of other providers.

BBC Alba

33. The proposals will lead to some improvements in the quality and quantity of news output on BBC Alba. Co-commissioning opportunities will also lead to up to an additional 100 hours of content on BBC Alba. We note however, that the budget for this additional content is already included in the impact analysis contained in the Frontier CC modelling and there would be no increase in BBC Alba's total yearly broadcast hours of 2,654.
34. We concluded that the lack of additional budget for BBC Alba, the small increase in hours, and the distinctiveness of BBC Alba's Gaelic content meant that this increase was unlikely to have an adverse impact on fair and effective competition. This is consistent with the approach Ofcom took to the market impact assessment of the launch of BBC Alba and the BBC Trust review, which found no crowding out of other Gaelic services.¹⁰⁰

⁹⁹ <http://www.bbc.co.uk/programmes/b0938tnj> and <https://www.sundaypost.com/fp/smyllums-children-lanarkshire-kids-home-scandal-revealed-hundreds-orphans-laid-rest-nuns-mass-grave/>

¹⁰⁰ Ofcom, [Market Impact Assessment of the BBC/Gaelic Media Service Gaelic Digital Service](#), 12 November 2007 and BBC Trust, [BBC Trust Service Review: BBC nations' news and radio services](#), August 2016.

BBC Radio nan Gàidheal

35. The proposals could lead to some improvements in the quality of news output on Radio nan Gàidheal. We concluded that the small size of these changes and the distinctiveness of Radio nan Gàidheal's Gaelic content meant that this change per se was unlikely to have an adverse impact on fair and effective competition. This approach is also consistent with the approach Ofcom took to the market impact assessment of the launch of BBC Alba.¹⁰¹

BBC iPlayer

36. BBC iPlayer will benefit from the increase in content resulting from the creation of BBC Scotland. This impact was included in the modelling done by Frontier CC. Therefore we concluded that this change, per se, was unlikely to have an adverse impact on fair and effective competition.

Cumulative impact on individual sectors

37. We considered whether the proposals and the associated changes could have a cumulative impact on individual sectors. We considered the potential impacts on FTA broadcasters; news provision and radio.

FTA broadcasters

38. The potential cumulative impact on FTA broadcasters could result from the:
- new BBC Scotland channel;
 - increased Scottish content on iPlayer;
 - improvements to BBC Alba; and
 - improved news coverage for Scottish audiences on BBC radio and the BBC website.
39. We noted that the BBC Scotland channel was expected to result in a small reduction in the viewing share of commercial broadcasters and the Frontier CC analysis included the potential impact of changes in iPlayer content. The changes to BBC Alba were expected to have little impact due to its distinctive Gaelic content, and the changes to news services were not likely to substantially affect television viewing habits. We therefore concluded that

¹⁰¹ Ofcom, [Market Impact Assessment of the BBC/Gaelic Media Service Gaelic Digital Service](#), 12 November 2007.

the cumulative impact of these effects was unlikely to have an adverse impact on fair and effective competition in the FTA broadcasting sector.¹⁰²

Written news provision

40. We considered whether the increased investment in news could affect competition in written news provision in Scotland, which includes printed and online news.¹⁰³ This differs from the analysis above on BBC Online, which only considered the individual impact of the changes to BBC Online News Scotland. The proposals could have a cumulative impact on written news provision due to the:

- new BBC Scotland channel, particularly the news on this channel;
- increased Scottish content on iPlayer;
- improvements to news provision on BBC Alba;
- improved news coverage for Scottish audiences on BBC radio and the BBC website; and
- the recruitment of 80 people to fill journalism posts in BBC Scotland.

41. We considered the evidence on this topic from the Frontier CC analysis, the Kantar TNS survey, the PAPA research and the responses to the BBC consultations.

42. The evidence in the Frontier CC analysis noted that structural changes in the newspaper industry have resulted in Scottish newspapers losing journalists. In Glasgow up to 25 editorial jobs were lost in 2016 from Newsquest, which owns the Glasgow based Herald and Evening Times.¹⁰⁴ Similarly in Edinburgh, Johnston Press revealed plans to cut editorial posts in early 2016, leading to 32 jobs being at risk in Scotland.¹⁰⁵

¹⁰² Given our finding of no expected adverse impact on fair and effective competition in FTA, we also concluded there would be no adverse impact on pay TV channels, SVOD providers; TV platforms; content production; or journalism.

¹⁰³ Our analysis in other sections covers the impact on television and radio.

¹⁰⁴ See <http://www.bbc.co.uk/news/uk-scotland-scotland-business-35246860>

¹⁰⁵ See <http://www.bbc.co.uk/news/uk-scotland-scotland-business-35261588>

43. The Frontier CC analysis also noted the consistent views of the European Commission and the UK Competition and Markets Authority that written press is a separate market from other media products.¹⁰⁶
44. In the PAPA research qualitative survey work respondents identified the potential benefits from increased spend on journalists, which could improve regional news coverage outside the Central Belt.¹⁰⁷ The Kantar TNS work did not cover the potential impact on alternative suppliers of news.
45. Some of the responses to the consultation expressed views on the impact of the news investment.¹⁰⁸ These included concerns regarding increased local content being made available across different BBC services, the impact of the recruitment of journalists, risks to plurality and the threats to existing news providers.
46. Confidential research carried out by one respondent to our consultation asked those surveyed whether watching BBC Scotland would affect their use of other media. A small number reported they would consume more media and an equally small number that they would consume less media. While we recognise that it did not ask specifically about the impact of an improved BBC news service, the research is suggestive of the proposals having a limited impact on news provision.

Conclusion

47. Written press and press online have different characteristics from news on TV and radio and this is reflected in competition authorities finding that written press is in a separate market from other media products. Consequently, we concluded any changes to TV and radio news would be unlikely to have an impact on written news provision in Scotland.
48. In the section above on BBC Online, we concluded that the changes to the BBC website would be unlikely to have an adverse impact on fair and effective competition because BBC Online News Scotland will provide content which is distinctive to other providers

¹⁰⁶ Frontier CC analysis.

¹⁰⁷ PAPA.

¹⁰⁸ These included comments made in the Newspaper editors' meeting and in written submissions from the Scottish Newspaper Society, Professor Robert Beveridge and [§<].

49. Consequently, we concluded that the cumulative impact of BBC proposals was unlikely to have an adverse impact on fair and effective competition in written news provision.

Radio

50. We considered whether the proposals could have a cumulative impact on the radio sector through:

- improvements to the news coverage on BBC Radio Scotland and Radio nan Gàidheal;
- improved news coverage for Scottish audiences on the BBC website; and
- the launch of the BBC Scotland channel.

51. The analysis in Section 6.5.1 looked at the specific impact of the changes to BBC Radio Scotland and BBC Radio nan Gàidheal and concluded these individually would be unlikely to have an adverse impact on competition.

52. We also noted that UK competition authorities have found that radio is a separate market to other media, suggesting the launch of BBC Scotland and the changes to the website would have a minimal impact on the radio sector.¹⁰⁹ Consistent with this, RAJAR research suggests that individuals listening to the radio tend to be performing other actions, like driving or doing household chores, so reading internet news would not be a good substitute in these circumstances.¹¹⁰

53. Consequently, we concluded that the combined effects of the proposals would be unlikely to have an adverse impact on fair and effective competition in the radio sector.

¹⁰⁹ For example, Competition Commission, [A report on the completed acquisition by Global Radio Holdings Limited of GMG Radio Holdings Limited](#), May 2013, paragraph 5.50.

¹¹⁰ RAJAR, [Midas Audio Survey](#), slide 13.

Cumulative impact on competitors operating in multiple sectors

54. We considered whether the launch of the BBC Scotland channel and the associated changes could have a cumulative impact on individual providers which operate in multiple sectors, specifically STV.

- STV operates both the STV1 and STV2 channels. As discussed above, the STV1 channel is expected to lose [X] percentage points of viewing share. This may have a cumulative impact on STV revenues of up to about £[X], with STV1 losing £[X] and STV2 losing a nominal amount to £[X]¹¹¹.
- STV also operates a news website which is monetised from advertising revenues. This could be affected by improvements to BBC Online News Scotland.
- STV operates a production company in Scotland which produces shows for the BBC, ITV network and other channels.¹¹² From 2012 to 2016 the BBC spent £[X] with STV Productions.¹¹³ In 2016 the BBC spent £[X], which represents [X]% of STV Productions' 2016 revenues of £12.7 million.¹¹⁴ The BBC has just commissioned multiple seasons of *Antiques Road Trip* and *Celebrity Antiques Road Trip* from STV Productions and so it is likely that STV Productions will benefit from the £11.2 million increase in the non-news programme budget.¹¹⁵
- STV's Player carried 21 million streams in 2016¹¹⁶. The potential impact on STV Player and the revenues received by STV from this service were included in Frontier CC's analysis of the impact of the launch of the BBC Scotland channel. Furthermore, we note that the primary role of STV Player is to stream content which has been made for STV's TV channels. STV does not commission content specifically for its player. Therefore the launch of the BBC Scotland channel

¹¹¹ These estimates are for the initial proposals as described in Box 1 in section 4.1 and do not match those presented in section 7.

¹¹² <http://www.allmediascotland.com/media-releases/124512/media-release-bbc-commissions-record-antiques-road-trip-order-from-stv-productions/>

¹¹³ BBC internal data.

¹¹⁴ STV, [Annual Report 2016](#), page 18.

¹¹⁵ <http://www.stvplc.tv/blog/2017/08/bbc-commissions-bumper-antiques-road-trip-order-from-stv-productions>. The BBC has also recently commissioned a network drama from STV Productions.

¹¹⁶ STV, [Annual report and Accounts 2016](#), page 7.

would be unlikely to have an adverse impact on STV's incentives in this area.

- STV offers an app on iTunes and Google Play which provides news, weather and sports reports. These could be affected by improvements to the BBC online coverage of Scottish news.

55. STV is likely to be the operator most affected by the proposed BBC Scotland investment. In particular, it is likely to lose some viewers due to the launch of BBC Scotland and gain increased commission revenue through STV Productions. STV is also likely to be affected by the investment in news investment.

56. We concluded that the cumulative impact was unlikely to affect negatively STV's incentives to invest and innovate. This was because the impact on its channels was small and the net impact on STV revenues, from increased commissions, may actually be positive. We also concluded that the BBC Scotland proposals would be unlikely to result in other operators who offer multiples services (e.g. ITV Border and Sky) changing their investment plans. Consequently, we concluded that the BBC Scotland proposals were unlikely to have an adverse impact on competition from providers operating in multiple sectors.

Annex 3: Modelling the share of viewing for BBC Scotland and its impact on commercial broadcasters

1. Frontier Economics and Communications Chambers (Frontier CC) were commissioned in April 2017 to support the regulatory analysis of the BBC's investment in Scotland. One of their key tasks was to develop a model which set out detailed projections of the number of people reached by the service and the hours of viewing that the channel might attract. The consultants were also asked to identify changes in the viewing of other BBC services and comparable commercial services.
2. Given the inherent uncertainties of predicting channel viewing in the future, and that when the Frontier CC analysis was being undertaken, the channel proposals were still under development, the consultants' model enabled the BBC to consider the impact of the channel under a range of different assumptions. These included, for example, how long it may take for the channel to reach a stable share of viewing¹¹⁷ and different programme budgets.
3. This annex provides a summary of the analysis of share and reach undertaken by Frontier CC and the BBC to inform our assessment of the BBC Scotland proposals.

Summary of the impact of the BBC Scotland channel under the initial proposals

4. To inform the public interest test, Frontier CC modelled a number of scenarios, including the initial proposals that were described in the June 2017 consultation document (and summarised in Box 1 in section 4.1). Under this scenario it was assumed that the channel would:
 - launch in Autumn 2018¹¹⁸;

¹¹⁷ The share and reach forecasts reported throughout this annex reflect viewing of BBC Scotland online (via iPlayer but not other VOD services such as Netflix) as well as on TV linear services and on PVRs, as do the shares for commercial channels.

¹¹⁸ For the purposes of the modelling Frontier CC assumed a launch date of September 2018. Were this date to change, the estimates in this annex would shift appropriately.

- start at 7pm every day;
 - have a programme budget of £31.6 million per annum; and
 - reach a stable share in a matter of months.
5. The last of these assumptions is a conservative one from the point of view of understanding the impact of the channel on commercial channels' shares of viewing. This is because, under this assumption, the channel will reach a higher share of hours of TV viewing more quickly than if the channel takes a year or two to stabilise. As a result, the channel is likely to 'take away' more viewing from commercial channels over a three year period than if the channel performs less strongly in its early years.
6. In contrast, assuming that the BBC Scotland channel will achieve its stable share of viewing relatively quickly will enhance the public value of the channel in its early years. For this reason in our assessment of public value in section 5 of the document, we also report share and reach estimates assuming, inter alia, that the channel:
- launches in Autumn 2018;
 - starts at 7pm every day;
 - has a programme budget of £31.6 million per annum; and
 - reaches a stable share 24 months after launch.

Results assuming the channel under the initial proposals reaches a stable share in a matter of months

7. A summary of viewing of BBC Scotland in 2019 (the first full year that the channel is operation) assuming that the channel reaches a steady state within a matter of months is shown in Table A3.1 below.

Table A3.1: Impact in 2019 of the initial proposals – upper bound estimates

BBC Scotland share of all TV viewing in Scotland	0.92%
BBC Scotland share of viewing in Scotland during 7pm-12 midnight	2.08%
Sources of BBC Scotland's all hours share impact (percentage point changes)	
BBC channels	-0.48 pp

-BBC One	-0.17 pp
-BBC Two	-0.08 pp
-BBC Four	-0.23 pp
-Other BBC	Negligible
Overall share gain for the BBC in Scotland	0.44 pp
Commercial channels	-0.44 pp
-STV/ITV	[✂]pp
-STV2	[✂]pp
-Other	[✂] pp

Source: BBC analysis based on Frontier CC model, version 1.5

8. Table A3.1 shows that the BBC Scotland channel will achieve a share of 0.9% of all hours of viewing by 2019. This is equivalent to a 2.1% share of viewing during the hours of 7pm to midnight. Table A3.2 shows the performance of the channel over time.

Table A3.2: Predicted share and reach for the channel under the initial proposals – upper bound estimates

%	2018	2019	2020	2021	2022
Share of viewing (7pm-12 midnight)	0.70%	2.08%	2.08%	2.08%	2.08%
Share of viewing (all hours)	0.31%	0.92%	0.92%	0.92%	0.92%
Reach in Scotland (7pm-12 midnight)	4.12%	12.21%	12.21%	12.20%	12.20%

Source: BBC analysis based on Frontier CC model, version 1.5

9. Frontier CC analysed the impact of the channel on broadcaster advertising revenues on the upper bound shares.
10. As described above this is a conservative approach from the perspective of understanding the impact of the channel on commercial broadcasting revenues. Under these upper bound estimates, Frontier CC calculated the following potential impacts on commercial broadcasters, under a range of assumptions about the responsiveness of the price of advertising slots to changes in volumes of ‘commercial impacts’.

Table A3.3: Impact in 2019 of the initial proposals on commercial broadcasters – upper bound estimates

Financial impact of viewing share capture by BBC Scotland					
Group	Change in viewing revenues (£m)	2016 Ad revenues (£m)	Rev impact (£m) net of price offset		
			67% offset	50% offset	33% offset
ITV plc [from ITV Borders]	[X]	1,784	[X]	[X]	[X]
STV	[X]	100	[X]	[X]	[X]
STV City	[X]	1	[X]	[X]	[X]
Other Scottish commercial	[X]	130	[X]	[X]	[X]
Total			-1.62	-1.66	-1.70

Source: BBC analysis based on Frontier CC model, version 1.5

11. In section 6 of this document we report the estimates shown in the table above assuming a 50% offset.

Results assuming the channel under the initial proposals takes two years to stabilise its performance

12. A summary of viewing of BBC Scotland in 2019 (the first full year that the channel is operation) assuming that the channel reaches a steady state within a matter of months is shown in Table A3.4 below.

Table A3.4: Impact in 2019 of the initial proposals – lower bound estimates

BBC Scotland share of all TV viewing in Scotland	0.39%
BBC Scotland share of viewing in Scotland during 7pm-12 midnight	0.87%
Sources of BBC Scotland's all hours share impact (percentage point changes)	
BBC channels	-0.20 pp
-BBC One	-0.07 pp
-BBC Two	-0.03 pp
-BBC Four	-0.10 pp
-Other BBC	Negligible
Overall share gain for the BBC in Scotland	0.18 pp
Commercial channels	-0.18 pp
-STV/ITV	[X]pp

-STV2	[redacted] pp
-Other	[redacted] pp

Source: BBC analysis using Frontier CC model, version 1.5. Figures may not add up due to rounding

13. Table A3.4 shows that the BBC Scotland channel will achieve a share of 0.4% of all hours of viewing by 2019. This is equivalent to a 0.9% share of viewing during the hours of 7pm to midnight. Table A3.5 shows the performance of the channel over time.

Table A3.5: Predicted share and reach for the channel under the initial proposals– lower bound estimates

%	2018	2019	2020	2021	2022
Share of viewing (7pm-12 midnight)	0.06%	0.87%	1.85%	2.08%	2.08%
Share of viewing (all hours)	0.03%	0.39%	0.82%	0.92%	0.92%
Reach in Scotland (7pm-12 midnight)	0.35%	5.13%	10.87%	12.20%	12.20%

Source: BBC analysis using Frontier CC model, version 1.5.

14. The commercial impacts for this scenario are shown in Table A3.6.

Table A3.6: Impact in 2019 on commercial broadcasters of the initial proposals– lower bound estimates

Financial impact of viewing share capture by BBC Scotland					
Group	Change in viewing revenues (£m)	2016 Ad revenues (£m)	Rev impact (£m) net of price offset		
			67% offset	50% offset	33% offset
ITV plc [from ITV Borders]	[redacted]	1,784	[redacted]	[redacted]	[redacted]
STV	[redacted]	100	[redacted]	[redacted]	[redacted]
STV City	[redacted]	1	[redacted]	[redacted]	[redacted]
Other Scottish commercial	[redacted]	130	[redacted]	[redacted]	[redacted]
Total			-0.68	-0.70	-0.72

Source: BBC analysis using Frontier CC model, version 1.5

Summary of the impact of the BBC Scotland channel under the final proposals

15. In the previous section we summarised the results from our analysis based on the initial proposals for the new channel, consistent with our discussion included in sections 5 (which set out our public value assessment) and

sections 6 (which considered the impact of our proposals on fair and effective competition) of this document.

16. However, in section 7 of this document we reported our analysis of the final proposals for the channel as described in Box 4 in section 4.3. This section of the annex therefore provides a summary of the key assumptions and results from the modelling of the final proposals for the BBC Scotland channel. Consistent with the approach set out in the previous section we first report our analysis assuming that the channel reaches a stable share within a matter of months. We then look at the impacts of the proposed channel assuming that it takes two years for the performance of the channel to stabilise. Under both of these scenarios we assumed that the channel:

- will launch in Autumn 2018;
- start at 12 noon every day and will broadcast c140 hours of live daytime programming per annum between the hours of 12 noon and 7pm and show a simulcast of BBC Two the rest of the time prior to again at 7pm;
- have a programme budget of £32.3 million per annum.

Results assuming the channel under the final proposals reaches a stable share in a matter of months

17. A summary of viewing of BBC Scotland in 2019 (the first full year that the channel is operation) assuming that the channel reaches a steady state within a matter of months is shown in Table A3.7 below.

Table A3.7: Impact in 2019 of the final proposals – upper bound estimates

BBC Scotland share of all TV viewing in Scotland	0.95%
BBC Scotland share of viewing in Scotland during 7pm-12 midnight	2.04%
Sources of BBC Scotland’s all hours share impact (percentage point changes)	
BBC channels	-0.40 pp
-BBC One	-0.21 pp
-BBC Two	+0.04 pp
-BBC Four	-0.23 pp

-Other BBC	-0.00 pp
Overall share gain for the BBC in Scotland	0.55 pp
Commercial channels	-0.55 pp
-STV/ITV	[<] pp
-STV2	[<]pp
-Other	[<]pp

Source: BBC analysis based on Frontier CC model, version 1.5

18. Table A3.7 shows that the BBC Scotland channel will achieve a share of 1.0% of all hours of viewing by 2019. This is equivalent to a 2.0% share of viewing during the hours of 7pm to midnight. The table shows a lower share for channel when it starts at noon compared to the scenario when the channel launches at 7pm. This is primarily because the average cost per hour for the channel goes down and so, despite the channel being on air for longer, viewing of the channel (both as a proportion of all hours of TV viewing and as a proportion of hours of TV viewing between 7pm and midnight) goes down. BBC Two's performance is strengthened due to its extra availability during the day time.

19. Table A3.8 shows the performance of the channel over time.

Table A3.8: Predicted share and reach for the channel under the final proposals – upper bound estimates

%	2018	2019	2020	2021	2022
Share of viewing (7pm-12 midnight)	0.69%	2.04%	2.04%	2.03%	2.03%
Share of viewing (all hours)	0.32%	0.95%	0.95%	0.95%	0.95%
Reach in Scotland (7pm-12 midnight)	4.03%	11.94%	11.94%	11.93%	11.93%

Source: BBC analysis based on Frontier CC model, version 1.5

20. We also calculated the impact of BBC Scotland on commercial advertising revenues, assuming that the channel achieves a share of 1.0% of all hours of TV viewing by 2019. As above, we considered a range of assumptions about the responsiveness of the price of advertising slots to changes in volumes of 'commercial impacts'. The results are shown in the table below.

Table A3.9: Impact in 2019 of the final proposals on commercial broadcasters – upper bound estimates

Financial impact of viewing share capture by BBC Scotland					
Group	Change in viewing revenues (£m)	2016 Ad revenues (£m)	Rev impact (£m) net of price offset		
			67% offset	50% offset	33% offset
ITV plc [from ITV Borders]	[X]	1,784	[X]	[X]	[X]
STV	[X]	100	[X]	[X]	[X]
STV City	[X]	1	[X]	[X]	[X]
Other Scottish commercial	[X]	130	[X]	[X]	[X]
Total			-2.02	-2.07	-2.12

Source: BBC analysis based on Frontier CC model, version 1.5

21. In section 7 of this document we report the estimates shown in the table above assuming a 50% offset.

Results assuming the channel under the final proposals takes two years to reach a stable share

22. A summary of viewing of BBC Scotland in 2019 (the first full year that the channel is operation) assuming that the channel only reaches a steady state after two years is shown in Table A3.10 below.

Table A3.10: Impact in 2019 of the final proposals – lower bound estimates

BBC Scotland share of all TV viewing in Scotland	0.40%
BBC Scotland share of viewing in Scotland during 7pm-12 midnight	0.86%
Sources of BBC Scotland's all hours share impact (percentage point changes)	
BBC channels	-0.17 pp
-BBC One	-0.09 pp
-BBC Two	+0.02 pp
-BBC Four	-0.10 pp
-Other BBC	-0.00 pp
Overall share gain for the BBC in Scotland	0.23 pp
Commercial channels	-0.23 pp
-STV/ITV	[X]pp

-STV2	[X]PP
-Other	[X] PP

Source: BBC analysis based on Frontier CC model, version 1.5

23. Table A3.10 shows that the BBC Scotland channel will achieve a share of 0.4% of all hours of viewing by 2019. This is equivalent to a 0.9% share of viewing during the hours of 7pm to midnight. Table A3.11 shows the performance of the channel over time.

Table A3.11: Predicted share and reach for the channel under the final proposals - lower bound estimates

%	2018	2019	2020	2021	2022
Share of viewing (7pm-12 midnight)	0.06%	0.86%	1.81%	2.03%	2.03%
Share of viewing (all hours)	0.03%	0.40%	0.85%	0.95%	0.95%
Reach in Scotland (7pm-12 midnight)	0.34%	5.02%	10.63%	11.93%	11.93%

Source: BBC analysis based on Frontier CC model, version 1.5

24. We also calculated the impact of BBC Scotland on commercial advertising revenues, assuming that the channel achieves a share of 0.4% of all hours of TV viewing by 2019. As above, we considered a range of assumptions about the responsiveness of the price of advertising slots to changes in volumes of 'commercial impacts'. The results are shown in the table below.

Table A3.12: Impact in 2019 of the final proposals on commercial broadcasters - lower bound estimates

Financial impact of viewing share capture by BBC Scotland					
Group	Change in viewing revenues (£m)	2016 Ad revenues (£m)	Rev impact (£m) net of price offset		
			67% offset	50% offset	33% offset
ITV plc [from ITV Borders]	[X]	1,784	[X]	[X]	[X]
STV	[X]	100	[X]	[X]	[X]
STV City	[X]	1	[X]	[X]	[X]
Other Scottish commercial	[X]	130	[X]	[X]	[X]
Total			-0.85	-0.87	-0.89

Source: BBC analysis based on Frontier CC model, version 1.5

Annex 4: Indicative schedules for the BBC Scotland channel

The new channel will have programmes that are relevant to Scottish audiences. We have not yet finalised our scheduling plans but have included some example schedules showing the types of content which the channel is likely to have on two typical weekday evenings. 50% of the schedule will be new programmes and 50% will be repeats. Repeats may include another chance to see programmes shown on other BBC channels.

Example A	Weekday schedule (indicative)
7pm-7.05pm	News Update & Welcome
7.05pm-8.00pm	Quiz/Features/Another chance to see Family viewing slot, alternative to Soaps.
8pm-9pm	Popular Factual/Drama Suitable for all with a focus on people/lifestyles including property, design, travel, etc.
9pm-10pm	9pm News programme An hour of Scottish, UK-wide and international news every weeknight, with the priorities and values of a Scottish audience at the heart of everything and with a focus on bringing the audience stories they won't see elsewhere.
10pm-11pm	Comedy/Drama/Factual/Arts/Current Affairs/Sport Appointment to view programmes for adults. Includes comedy, drama and live discussion formats such as a Scottish political panel show, sport analysis show, lighter topical shows, comedy panel show.
11pm-midnight	Music/Social/Comedy Aimed at younger and young at heart audience (over 25yrs) and will include some more experimental content.

Example B	Weekday schedule (indicative)
7pm-7.05pm	News Update & Welcome
7.05pm-9pm	Sport For all sports fans in Scotland.
9pm-10pm	9pm News programme Scottish, UK and International stories from Scotland's perspective.
10pm-11pm	Comedy/Drama/Factual mix Appointment to view programmes for adults.
11pm-midnight	Factual/Comedy (archive)

Annex 5: Glossary

Barker channel	Digital images presented on a channel instead of television programmes. The images typically contain branding or advertising for the channel.
Bottom-up investigations	These are investigations which start with an apparently small event, or story, which is then investigated in depth, perhaps bringing in other people with similar stories, in order to gain evidence of a larger problem which potentially then has national implications.
BBC Alba	A BBC channel broadcasting primarily in Gaelic.
CC	Communications Chambers.
Central Belt	An area of high population density in Scotland situated between the Highlands and Southern Uplands. Edinburgh and Glasgow lie within the Central Belt.
Co-commission	Two or more channels commissioning a television programme, with both having editorial input.
Counterfactual	The alternative scenario which would occur if the BBC Scotland channel were not launched. This alternative scenario is used to assess the changes that would result from the launch of BBC Scotland.
Creative Industries	Industries which employ a significant proportion of creative people, including fashion, film making, music production, software design and television.
Cross-commissioning	Commissioning which involves multiple related programmes across different channels or platforms. For example, <i>Strictly Come Dancing</i> and <i>It Takes Two</i> .

DTT	Digital Terrestrial Television.
Dynamic impacts	These are the potential effects which result from other providers changing their behaviour
EPG	Electronic Programme Guide.
FRAND	Fair, Reasonable And Non-Discriminatory terms.
Frontier Economics	An economic consultancy.
FTA	Free To Air.
HD	High-definition.
iPlayer	Online, on-demand catch-up BBC service, which typically allows users to watch BBC programmes from the previous 30 days.
ITV	A commercial FTA broadcaster which broadcasts to England, Northern Ireland, Wales, and southern Scotland through ITV Border.
Kantar TNS	Market research company.
Linear content	Scheduled broadcast television content.
MG Alba	MG ALBA was established by the Communications Act 2003 to ensure that a wide and diverse range of high quality programmes in Gaelic is made available to persons in Scotland by broadcasting or by other means.
Opts	At certain times in the schedule BBC One Scotland and BBC Two Scotland opt out of the main schedule to show content specifically targeted at Scottish audiences.
PACT	The trade association representing the commercial interests of UK independent television, film, digital, children's and animation

	media companies.
PAPA	Market research company.
Pay TV	Linear television channels which are only available to subscribers.
PVR	Personal video recorder.
SD	Standard definition.
Simulcast	Simultaneous broadcast, the broadcasting of programmes across more than one linear channel at exactly the same time.
Smart television	A stand-alone television set with inbuilt internet functionality. Users connect to the internet via a broadband router or modem.
Static impacts	These are the potential direct effects of the proposal on the identified sectors
STV	Scottish Television. A commercial FTA broadcaster in Scotland. We refer to the STV channels as STV1 and STV2 and the broadcaster as STV.
SVOD	Subscription video-on-demand. Amazon Prime, Disney Life and Netflix are SVOD services.
Terms of Trade	An agreement between the BBC and PACT which sets out a business framework for the commissioning of qualifying independent productions.
TV platforms	Services which offer viewers a bundle of linear television content. Freeview, Freesat, Sky, Virgin Media and YouView are TV platforms.

