

Review of the BBC's materiality assessment of proposed changes to the provision of local online news in England

Non-confidential version for publication [X]

Summary of our decision

- 1.1 We have reviewed the materiality assessment (MA) provided by the BBC on 27 September 2022 in relation to its proposals for the provision of local online news in England. We have decided **not to require the BBC to carry out a Public Interest Test (PIT) for these proposals**.
- 1.2 Based on the BBC's MA, further information received from the BBC and stakeholder engagement, we consider that the proposals constitute a change to BBC Online, an existing UK Public Service. On the basis of the available evidence our assessment is the impact on the total revenues of online local news providers is likely to be less than 1%. Therefore, **we do not consider the change is one that may have a significant adverse impact on fair and effective competition** (and we do not consider the change to be material).¹
- 1.3 We recognise the importance of protecting competition in the provision of local news and the uncertainty in making forward looking assessments. We will therefore monitor the progress of the BBC's proposals and gather information from the BBC and commercial operators to consider the actual impact of the BBC's proposals on audiences and we will share the results in our next Annual Report on the BBC. If evidence emerges of harm to competition from ongoing BBC activities in this area, Ofcom has the regulatory tools to address this using a BBC competition review (BCR).

Ofcom's role in regulating the BBC

- 1.4 **The BBC is currently operating in a period of significant change.** Audience behaviours continue to shift rapidly. This presents a significant challenge for the BBC to deliver for all audiences, who are consuming content in increasingly fragmented ways. It therefore needs to find new ways to engage with those who have shifted the majority of their media consumption online and use a range of services for their media, while continuing to offer a broad range of content across its traditional broadcast outlets.
- 1.5 In the [Ofcom Annual Report on the BBC 2021-22](#), we recognise that the BBC will have to make some difficult decisions as it seeks to respond to these challenges. In doing so, it is critical that it is transparent about its plans and how it will deliver its remit. We will engage with the BBC as its plans evolve to ensure that it delivers its obligation to serve all audiences across the UK with distinctive, high-quality UK content covering a broad range of genres. We will also continue our work on updating our regulation to ensure it keeps pace with the changing environment in which the BBC operates and is effective in meeting audience needs.
- 1.6 **As the BBC makes changes to its news and current affairs output, we will hold it to account to ensure that it continues to deliver for all UK audiences.** The BBC is in the process of modernising its delivery of news and current affairs through its [Digital First Strategy](#). Its overall aim is to make savings in broadcast news so that additional money and resources can be invested in its video and digital news. As part of this, the BBC plans to

¹ The BBC Agreement Clause 7(7).

make changes to its rolling news coverage on TV, and to its local news portfolio including radio and online in the English regions.²

- 1.7 We recognise that in the context of wider financial pressures, and in order to modernise its operations and output, the BBC must make difficult decisions. But in making these changes, it must continue to deliver content for all audiences in the UK, including UK and international news and current affairs for domestic TV and online audiences. It also needs to continue to deliver tailored news and current affairs content for those in the nations and regions, which make an important contribution to the delivery of the BBC's remit. It is important that the BBC does not leave audience groups behind. We will continue to engage with the BBC as it develops its plans in these areas, to ensure that it continues to deliver for audiences.

² The [Ofcom Annual Report on the BBC 2021-22](#) (Annual Report) sets out more detail about the BBC's plans to modernise its delivery of news and current affairs.

Ofcom's role in assessing changes to the BBC's public services

When considering any change that the BBC intends to make to its public services, we will seek to form an analysis appropriate to the change(s) proposed. The purpose of this analysis is to understand the extent to which the change(s) may have a significant adverse impact on fair and effective competition and whether the change(s) affects the BBC's ability to meet its obligations under the Operating Licence.

Where the BBC implements a change that results in an increase to a public service, there is potential for it to have an adverse impact on competition. Under the Agreement, the BBC is responsible for assessing whether proposed changes to its public services may be 'material'. A change is material if the BBC is launching a new UK public service, or if it is making a change to an existing service that may have a significant adverse impact on fair and effective competition.

Whilst Ofcom is not required under the Agreement to review the BBC's materiality assessments, Ofcom reserves the power to direct the BBC to conduct a Public Interest Test (PIT) if the BBC has failed to identify a material change. In practice, the BBC provides Ofcom with its assessment of materiality and Ofcom will normally review this to assure itself that the change is not material.

Where a change results in a reduction in the public service offered by the BBC, our starting assumption is that the change(s) would not have significant adverse impacts on fair and effective on competition. In these circumstances, we would work with the BBC to understand the nature of the change and to ensure that once enacted, the BBC will still be able to meet its obligations under the Operating Licence, the Mission and the Public Purposes more broadly.

The current [Operating Licence](#) consists primarily of quotas that require the BBC, among other things, to provide a minimum number of hours of content across different genres on specified TV and radio services. Each year Ofcom publishes its [Annual Report on the BBC](#), where we assess the BBC's compliance and its performance against all areas of our regulation. Outside of these reports we monitor the BBC's performance and regularly engage with the BBC and stakeholders. Ofcom is currently reviewing the BBC's Operating Licence. We published a [consultation](#) on 22 June 2022 and are publishing a further consultation on certain Operating Licence provisions today. We will be publishing a statement in 2023, ahead of the new licence coming into effect on 1 April 2023.

The BBC's proposals for online local news in England

- 1.8 As part of its [Digital First Strategy](#) the BBC intends to increase its local online news offering in England. The BBC decided that its proposals should be assessed for materiality, and we received the BBC's Materiality Assessment (MA) of the BBC's local news portfolio proposals in England on 27 September 2022.
- 1.9 In the MA the BBC sets out its plans to expand its online local news offering (delivered via its website and the BBC News app) through two changes:
- increasing the number of local area indexes, by adding four indexes with the new locations, Bradford, Sunderland, Wolverhampton and Peterborough; and
 - increasing the number of local stories the BBC publishes each day on each index.³
- 1.10 The BBC estimates the total cost per annum of its online local news provision will increase from [X].⁴
- 1.11 [X.]

Ofcom's review of the BBC's proposals

- 1.12 We have carefully reviewed the materiality assessment and additional information provided by the BBC, along with other information available to us as well as information provided by the News Media Association (NMA).⁵ We met with the NMA to discuss the BBC's proposals, in relation to which we have also received a written response. In that response the NMA challenged a number of inputs into the BBC's modelling and raised concerns that the BBC has overstated the uniqueness of its local online news offering. We also understand that the BBC met with the NMA to share details of and discuss the MA proposals, including its modelling. We have taken account of the information provided by the NMA in reaching our decision.
- 1.13 We have also taken account of publicly available information such as the published financial statements of local news publishers and contextual and broader evidence, including data from our [News Consumption Survey 2022](#), [Media Nations Report 2022](#), and economics reports prepared for DCMS on the local news sector.⁶
- 1.14 We have focused our review on the concern that the proposal 'crowds out' commercial local news websites.⁷

³ [X].

⁴ [X].

⁵ The NMA represent regional and local news media organisations in the UK.

⁶ [Plum Consulting, Research into recent dynamics of the press sector in the UK and globally \(2020\)](#) and [Economic Insight, Press Sector Financial Sustainability: A report for the Department for Culture, Media and Sport \(2021\)](#).

⁷ Crowding out can occur if the BBC changes its services in a way that leads audiences to switch away from commercial services to BBC services, such that it reduces commercial providers' revenue to an extent that they reduce investment in their services. This would lead to a consequent reduction in overall choice, quality and range of content for audiences. In some extreme cases, commercial providers may cease providing services altogether.

The BBC's analysis assesses the impact of an increase in local news stories on readership and the revenues of online local news publishers

- 1.15 The BBC estimates the impact of its proposals [X].
- 1.16 Each of the steps in the BBC's analysis is subject to uncertainty, which leads to a range of possible outcomes relating to the extent to which the BBC's proposals might impact the digital advertising revenues of local online news publishers. Having taken account of concerns raised by the NMA and considered the BBC's analysis for ourselves, we modified the BBC's analysis to understand the potential impact of the proposed changes, and better reflect the uncertainty in some of the steps of the BBC's analysis. This allowed us to identify a range for the potential impact of the proposals on the digital advertising revenues of online local news providers, for the purposes of reaching a view on whether the change is material. Our range is based on varying the following assumptions:
- **The number of additional page views the new stories published by the BBC will attract:** we created our own scenarios to test how much the revenue impact would change under different assumptions regarding page views. The lower end is based on the BBC's own estimate of the number of additional page views per story, applied to the total number of additional stories expected under the proposals. Given the uncertainty in the BBC's estimate, we considered higher estimates of the number of additional page views per story. We focused on the "lower page view uplift" and "higher page view uplift" scenarios set out in table 1 below, which reflects what we think is the most plausible range. Across the range we assume some diminishing returns because we think it is unlikely that additional stories will create the same number of page views as existing stories.
 - **How much readership of commercial local news will decrease if the BBC produces more online local news stories:** Our range has been informed by the BBC's analysis set out in the MA, which we think is appropriate. [X].
- 1.17 Table 1 sets out the range for the potential impact of the proposals on the digital advertising revenues of online local news providers.

Table 1: Revenue impacts by scenario ⁸

Page view uplift scenario	Lower page view uplift		Higher page view uplift	
Diversion scenario ⁹	Reasonable diversion	High diversion	Reasonable diversion	High diversion
Impact on digital advertising revenue¹⁰	2.44%	7.01%	4.78%	13.74%
Impact on local news revenue¹¹	0.49%	1.40%	0.96%	2.75%

The BBC intends to maintain an offering which is distinct to the content of other local online news providers.

- 1.18 Distinctiveness is not just a measure of how the BBC compares to other broadcasters and news publishers, but of the unique value it offers to audiences. It sits at the heart of what we expect the BBC to do. Key drivers of distinctiveness include the breadth and quality of output, including the volume of new and original UK content, risk-taking and innovative output, and the range of audiences the BBC reaches and serves. However, distinctiveness does not mean that all BBC content needs to be different to what other broadcasters and news publishers provide.
- 1.19 We have given weight to the BBC’s intent to maintain a distinct offering, which is reflected in its current approach to the provision of online local news. In reaching this view we took account of the BBC’s current local online news offering, the offering of commercial local online news publishers, research provided to us by the NMA and our own research regarding consumers habits in relation to online news consumption. We note that existing audiences for non-BBC online local news suggests that for some audiences BBC online local news is not a substitute for commercial content. While the proposals will mean that the volume of BBC online local news content may grow and indeed attract more audience, it will not necessarily replace the interest in and consumption of the commercial online local news content that already exists.

Our decision and next steps

- 1.20 We set out below a summary of our review and the principal reasons for our decision.
- 1.21 In order to consider whether the proposals may have a significant adverse impact on fair and effective competition we need to make a judgment as to the likelihood of outcomes

⁸ Sources: BBC analysis, Ofcom analysis.

⁹ The diversion scenarios make assumptions about how many of the new BBC page views come from readers who would otherwise have read commercial local news stories.

¹⁰ The analysis assumes that for each page view that is diverted from local news providers there is a proportional impact on digital advertising revenue.

¹¹ We estimate local news revenues using Source: the 2021 Economic Insight report on the UK press sector’s financial sustainability, which suggests that roughly 20% of total regional revenues related to digital advertising, with most remaining revenue related to circulation and print advertising

arising from the wide range of possibilities identified. That enables us to assess whether there is a reasonable prospect of there being an adverse impact or whether that possibility is too unlikely to be plausible. We consider that the impact of the proposals is most likely to fall somewhere between the lower and higher page view uplift scenarios shown in Table 1. We also consider that the 'reasonable' diversion rate is more plausible than the 'high' diversion rate estimate, which is based on assumptions which we think are very conservative. While we think there will be some substitution of commercial local news stories with BBC stories, we think this will be limited by the distinctiveness of BBC content and the likelihood that there is currently unmet demand for local news, so we expect many readers to read more local news than before as a result. We therefore think that the impact on the total revenues of online local news providers is more likely to fall somewhere between 0.49% and 0.96%.

- 1.22 This leads us to conclude that **we do not consider the change is one that may have a significant adverse impact on fair and effective competition** (and therefore we do not consider the change to be material) and **we do not require the BBC to carry out a PIT for the proposals.**
- 1.23 We recognise the importance of protecting competition in the provision of local news and the uncertainty in making forward looking assessments. We will therefore monitor the progress of the BBC's proposals and gather information from the BBC and commercial operators to assess the actual impact of the BBC's proposals on audiences and we will aim to share the results in our next Annual Report on the BBC. If evidence emerges of harm to competition from ongoing BBC activities in this area, Ofcom has the regulatory tools to address this using a BBC competition review (BCR).¹²
- 1.24 A BCR allows us to consider, in light of developments that have occurred, whether an ongoing BBC public service is having a significant adverse impact on fair and effective competition and whether public value of the service justifies the adverse impacts. If we conclude there is an adverse impact on fair and effective competition which is not justified by the public value we can require the BBC to make modifications to the service or place conditions on the service.
- 1.25 As required by the Charter and Agreement, we would expect the BBC to consider the potential competition effects of any future changes to its online local news offer (including any changes to the distinctiveness of its online local news content) and whether any changes would constitute a material change.

¹² We may carry out a BCR if we have reasonable grounds for believing that the carrying out of a UK public service is having a significant adverse impact on fair and effective competition.