



Radio in Digital Britain

A submission from Ofcom to Government

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Contents

Section		Page
1	Summary	1
2	Introduction	5
3	Radio in a changing media world	7
4	The place of DAB in a digital world	8
5	The radio industry	11
6	Next steps for Ofcom	14
7	Recommendations for UK-wide services	16
8	Recommendations for large local services	20
9	Recommendations for small local services	24

Section 1

Summary

- 1.1 We welcome the Digital Britain review as an unprecedented opportunity to consider the role of radio in a digital world, and as part of the wider media landscape. In this submission we offer proposals to take forward some of the specific radio issues raised in the Digital Britain Interim Report. We suggest legislative changes that Government should consider
 - 1.1.1 to restructure both the analogue and digital radio landscapes, in order to secure the future of commercial and community radio in the face of increasing financial and competitive pressures,
 - 1.1.2 to encourage the continued growth of the DAB platform; and
 - 1.1.3 to overcome some of the obstacles that might hinder any future digital migration.
- 1.2 This submission builds on evidence that Ofcom has published previously but also draws on research and analysis that is still in progress¹.
- 1.3 Media consumption is changing in Digital Britain, but linear audio still has unique characteristics, and our research suggests that broadcast radio still has a particular role to play.
- 1.4 At UK-wide and larger local levels, the commercial radio sector complements the BBC's radio services, but also has an important role providing competition, diversity of genres and plurality of voices, given the BBC's share of the radio audience. At smaller local levels, commercial and community radio makes a unique contribution of local content and community benefits not duplicated elsewhere.
- 1.5 Digital technologies offer consumers greater control, quality and - with very little spectrum available for new analogue radio services - potentially greater choice. DAB has had the largest impact to date in the UK radio market, with considerable takeup and usage, and industry investment in transmission infrastructure.
 - 1.5.1 The Digital Britain Interim Report follows the Digital Radio Working Group in proposing a Government policy that DAB should be the primary distribution platform for UK-wide and large local radio stations, and calls for a migration of listening to DAB over the next decade.
 - 1.5.2 Our analysis suggests that a number of digital platforms offering radio content are likely to develop, and to co-exist in a mixed ecology.
 - 1.5.3 DAB is currently the technology best placed to provide free-to-access universal provision of digital radio services, across the country, via affordable portable and mobile devices. We therefore share Government's vision of DAB as the primary digital radio platform.

¹ In light of the need to respond quickly to the Digital Britain initiative, in some areas we are giving a view without having completed our analysis and conducted a full impact assessment.

- 1.5.4 If this is to happen, regulation and legislation will need to change to facilitate the continued growth of the DAB platform. We set out below the changes that we believe need to take place.
- 1.5.5 But these changes alone will not be sufficient: action by industry stakeholders, both BBC and commercial will also be necessary, notably improvement of coverage and reception, a more consistent offering of high quality content, and greater use of the other consumer benefits DAB can offer in terms of programme guides, text and data services.
- 1.6 More immediately, the industry faces significant financial pressures, resulting in part from structural and cyclical changes in advertising and in part from the costs of digital transmission.
- 1.7 Taking these things together, there is an urgent need for Ofcom and Government to address three linked questions:
 - 1.7.1 If DAB is to become the primary distribution platform for UK-wide and large local stations, what regulatory and legislative changes could improve its viability, so that consumers can be offered a wide range of high quality services?
 - 1.7.2 What other steps may be necessary to encourage take-up of the DAB platform, and what will be the role of other stakeholders, such as industry groups and the BBC, in achieving these?
 - 1.7.3 In a world where financial pressures on commercial stations are increasing, but localness is still valued by listeners, what regulatory and legislative changes should be made now to strike an appropriate balance between public interest in localness and financial viability of commercial radio? Such changes will need to help both analogue and digital platforms, now, during and beyond any migration to digital platforms.
- 1.8 At a UK-wide level we recommend facilitating the creation of new commercial radio stations to create a consumer proposition analogous to that of Freeview: a wide range of popular and niche services, delivered digitally. In particular we suggest Government considers:
 - 1.8.1 Allowing existing analogue regional stations to become UK-wide digital (and quasi-national analogue) stations, in effect by dropping the local programming required from them; and
 - 1.8.2 Allowing existing regional multiplexes to be merged and expanded to create a second, regionalised UK-wide commercial DAB multiplex, that could be a platform for national radio station brands while still selling advertising on a regionalised basis.
- 1.9 At a local level we suggest there may be a need to amend legislation and regulation to ensure the continuation of a viable tier of commercial services, large enough and sufficiently well resourced to provide local news and other content in every part of the UK. These stations would also be expected to broadcast on DAB and so would be subject to digital migration if it occurs. But we recognise that existing stations in this tier may need greater flexibility in order to have sufficient resources to offer quality local content.

- 1.9.1 Our ongoing research and analysis suggests that stations will need scale to be viable, but also that universal provision of local commercial radio services is highly desired by consumers. Taken together, we suggest it may be sensible to define a new set of geographic areas for this tier, taking into account local affinities. In due course Ofcom plans to consult on a set of areas for the whole country.
- 1.9.2 Within areas, we are considering proposing effectively to allow consolidation of these services: including by greater programme sharing and co-location, and local multiplexes being able to combine and extend to increase coverage.
- 1.9.3 As the main emphasis for these stations should be on localness, music now being available via many types of platforms and services, we plan to consult on the appropriateness of continuing to regulate music formats for all stations.
- 1.9.4 Stations of sufficient size to be viable on analogue should also be of an appropriate size for carriage on the relevant DAB multiplex/es, and would be of sufficient scale to afford DAB transmission².
- 1.10 These larger local areas would ensure at least one local station in every part of the UK. At a level below, our analysis so far suggests that the viability of smaller stations will depend on a range of local, particular factors. We therefore do not envisage there would be universal availability of smaller services, but would encourage - through regulatory and other means - the growth of new services, building on the success of community radio.
- 1.10.1 We suggest there may be merit in allowing stations to choose which model they wish to follow:
- their current commercial model but with greater flexibility to co-locate and share more programming with other stations in their area;
 - a merger with other local commercial stations in the area, obtaining carriage on DAB to join the tier of large local stations;
 - a non-profit, accountable community model with eligibility for public funding;
 - or a more flexible commercial model whereby they propose a different set of commitments to localness (similar to the Key Commitments of community radio stations) which get written into their licence.
- 1.10.2 This lowest level would not, according to the proposals of the DRWG, migrate to DAB alongside the national and larger local services. Indeed, in the event of spectrum being freed up by migration, awarding more FM licences of this type would be possible.
- 1.11 This submission sits alongside other work that Ofcom is doing related to radio:

² In the event of digital migration (i.e. DAB only transmission), these services would under the current regulatory framework have no obligation to provide local programming. This is a point considered in 8.13.

- 1.11.1 We will consider how our regulation of localness on radio may need to be revised in the light of Digital Britain's final report and the Myers Review of the rules governing local radio, together with an exploration of the different options we set out above. We are mindful of the urgent pressures faced by the industry, and will move to consult on this area as soon as possible.
- 1.11.2 We will carry out our statutory review of the cross-media and radio-specific ownership rules.
- 1.11.3 We are undertaking a major project considering the wider provision of local media. This will consider, among other things, radio's role in the wider local media landscape and commercial radio's expansion into multimedia platforms as a way of expanding the provision of local material.
- 1.11.4 We will also be reviewing the Broadcasting Code this year, to reflect changes in society and in the broadcasting and regulatory environment. Among other areas of research, Ofcom is examining consumer attitudes to commercial references in radio. Ofcom will publish this research, together with a public consultation on the Code Review, in summer 2009.

Section 2

Introduction

Radio in the wider context of Digital Britain

- 2.1 The Digital Britain project offers an unprecedented opportunity to make new links between radio and other areas of communications policy:
- 2.1.1 A fresh look at news production/delivery and other public purposes for radio which may lead to an agreed role for public service radio, including but not limited to the BBC;
 - 2.1.2 Consideration of the role that local radio plays alongside other local media in a rapidly changing world;
 - 2.1.3 A consideration of radio policy from the perspective of investment in content (our research suggests that currently the UK radio sector makes c. £100m pa in rights payments to the music industry, at a time when that industry faces the challenges of structural change and illegal file sharing; and spends c. £500m on production³);
 - 2.1.4 A better dialogue between the radio industry and those involved in promoting media literacy, to include radio broadcasters in media literacy initiatives previously limited to TV broadcasters, and to use media literacy initiatives to educate consumers about the benefits of digital radio.
- 2.2 We will consider these either as other parts of our submissions to Digital Britain or in our other projects later this year.
- 2.3 Other policy areas of Digital Britain will have implications for radio policy. In particular:
- 2.3.1 The accelerated introduction of next generation wireless access technologies (e.g. LTE⁴), or new technologies delivered on current wireless access networks (e.g. MBMS⁵), may mean that some of the limitations of mobile broadband as an audio delivery platform are overcome, for example the difficulty of sustaining a stream whilst on the move.
 - 2.3.2 The proposed broadband Universal Service Commitment may accelerate the takeup of online audio consumption, providing alternatives to broadcast audio as well as delivering next generation interactive, personalised radio services and advertising; and, as availability and takeup of broadband internet approach that of radio, provide a viable alternative to universally-available, local audio services.

³ £46m of the £100m in rights payments is attributable to the commercial sector, as is £74m of the £500m production spend. Source: Spectrum Value Partners Flow of Funds research for Ofcom, unpublished and commercially sensitive.

⁴ Long Term Evolution

⁵ Multimedia Broadcast Multicast Service

- 2.4 These issues will need to be considered over the coming months. Ofcom plans to carry out a comprehensive review of local media. We will also carry out our statutory review of the ownership rules for Government.
- 2.5 In the meantime, the radio industry faces some more immediate problems relating to financial viability and its ability to make the most of the opportunities offered by DAB, and so we make some proposals for changes to the regulation of the sector, some of which would require legislative change.

Section 3

Radio in a changing media world

The implications of changes in consumption and technology

- 3.1 Convergence makes it harder to consider radio as a distinct industry; it is now part of a wider media landscape. The consumption of audio is changing, as the content and the platforms used to deliver it evolve, but it still has unique characteristics.
- 3.2 In the audio market, broadcast radio has a particular role to play. Radio has consistently delivered public value over the past 80 years, and can do so in future.
- 3.3 Radio has content and characteristics that citizens and consumers value a great deal: news and information, companionship, interaction, localness, immediacy, and entertainment. Not all of these are exclusive to radio, but there is still a demand for these things as part of linear, streamed audio services, receivable free of charge on portable and mobile devices.
- 3.4 We can distinguish between radio as a distribution technology, and separately in terms of content. Digital technologies are an opportunity and a threat to both:
 - 3.4.1 A range of alternative digital platforms including fixed and wireless broadband, mobile and satellite can offer content that dedicated radio platforms have historically monopolised. Some of these platforms provide functionality not possible on the traditional analogue broadcast platform, notably interactivity and data services, and the ability to receive services from any location. These networks coupled with increasing device storage offer an increasing choice of audio services that can be accessed anywhere, and radio will need to respond to these new challenges.
 - 3.4.2 Radio brands and services have the opportunity in the digital space to become cross-platform, deliver their content in new ways, and offer new services including video and interactivity. Similarly, brands and services from other sectors have new opportunities to enter the audio space.
- 3.5 However, analogue terrestrial radio broadcasting as a technical distribution platform currently provides a unique combination of features: efficiency of distribution, universality, mobility, and ubiquity. The immediate challenge for the platform is that there is no more spectrum to cater for the demand for more analogue community services, or to provide more UK-wide analogue services to allow commercial radio to compete on a more level playing field against the BBC.
- 3.6 Radio as a content industry also currently provides types of content not easily available elsewhere, particularly 'soft' types of local content (i.e. community-building content like discussions, event coverage, local competitions), content catering to other niche communities, and specialised/selected music content. The immediate challenge for regulation of this industry is how to secure these for consumers, in the face of changing economics.

Section 4

The place of DAB in a digital world

- 4.1 The interim report of Digital Britain is clear – following the recommendations of the Digital Radio Working Group - that Government policy is for DAB to become the primary distribution network for radio.
- 4.2 Digital technologies offer consumer benefits of greater choice (both of audio content and of the means to access it), potentially more robust reception, data services (e.g. information to accompany radio programmes, traffic information), and easier service navigation using Electronic Programme Guides.
- 4.3 At present DAB accounts for the majority of digital radio listening. It is the only digital radio platform in the UK that offers coverage to mobile devices (notably cars – albeit with limited current availability) and is free-to-access (without charges for either content, or carriage of that content). It has considerable take-up and usage (8.5m sets owned, penetration of 29.7% of households and an 11.4% share of all radio listening compared to internet listening at 2%). This together with the investment in transmitter infrastructure made by the BBC and the commercial sector means that there would be substantial consumer (and industry) detriment associated with the loss of the DAB platform.
- 4.4 There are various other digital platforms, and each are suited to different listening requirements. Currently some have limitations, but these may be overcome in time.
 - 4.4.1 Portable WiFi radios may become the norm for listening to internet radio: these devices could take off once channel navigation becomes standardised, and device cost decreases (a likely outcome of global market scale).
 - 4.4.2 The universal accessibility of digital television and broadband from 2012 may change the picture of how radio services are consumed, and how radio services fit in the overall picture of audio consumption.
 - 4.4.3 The current advantage of mobility that DAB enjoys over internet radio may be eradicated by new 4G/LTE mobile broadband, or by new multicast technologies delivered on current wireless access networks (e.g. MBMS over 3G), although it is likely in either of these cases that consumers would need to pay to access radio services delivered in this way (even if the operational efficiency becomes closer to that of DAB through implementation of multicasting technology).
- 4.5 It is difficult to predict how these will grow in future, and which may become the frontrunner. A lot will depend on the content and services that are offered on different platforms, and the ease and cost of accessing them.
- 4.6 We believe that, whatever other digital technologies may emerge in the next few years, DAB will be crucial for the digital delivery of free-to-access, linear audio services to affordable portable and mobile devices.

- 4.7 It is likely that consumers, faced with greater choice of services and service types on other audio platforms, will have emerging needs and expectations that a simple DAB platform cannot satisfy. Our ongoing analysis therefore suggests that the core DAB service offer will over time be enhanced by other networks (including broadband and mobile wireless) to deliver a wider range services and functionality (niche channels, interactivity, targeted content/programmes and advertising).
- 4.8 We therefore think that DAB could become the 'Freeview of the radio world', in two senses:
- 4.8.1 First as a consumer proposition of a wide range of free-to-access mainstream and niche services;
- 4.8.2 Second as a bedrock, entry-level platform that would be supplemented by a range of other audio delivery technologies.
- 4.9 If this is to happen, then Government, Ofcom, and industry stakeholders will all need to play a role in facilitating the continued growth of the DAB platform.
- 4.9.1 Regulation and legislation will need to change to facilitate the continued growth of the DAB platform. We set out below the changes that we believe may need to take place.
- 4.9.2 Coverage and reception will need to be improved, as the DRWG has noted. This will need action from both BBC and commercial industry stakeholders, and may need facilitation from Government and/or Ofcom.
- 4.9.3 Perhaps most importantly, though, we recognise that consumers will be driven to use the DAB platform by the content and data services that it offers. We therefore look to the radio industry to provide a wider and more consistent offering of high quality content, and also to develop and promote greater use of the other consumer benefits DAB can offer in terms of programme guides, text and data services.
- 4.10 On behalf of the Digital Radio Working Group, and with input from DCMS, BERR and HMT, Ofcom commissioned an initial Cost Benefit Analysis from PwC of digital migration (based solely on the recommendations of the DRWG), which shows the costs and benefits finely balanced. This has been passed on to Government.
- 4.11 We regard this report as making an important contribution to the analysis of this issue. However, as PwC point out, there are some important limitations to the report which derive in part from its scope as well as reflecting the fact that the development of any digital migration strategy is still at an early stage.
- 4.12 There are four particular caveats worth noting:
- 4.12.1 There are other routes to migration (the report's conclusions are based on the specific recommendations of the Digital Radio Working Group, and other options exist to develop digital radio in the UK);
- 4.12.2 The sensitivity analysis carried out reveals the importance of two critical assumptions: that the current licence period is extended to 2030, and that there is the successful development of a second national DAB multiplex;

- 4.12.3 The report identifies most of the consumer benefit as deriving from extending DAB coverage and the services it provides. There is no technical or physical barrier which prevents these being achieved even if analogue broadcasting on today's frequencies were to continue;
 - 4.12.4 The report points out a number of areas needing further research, such as listeners' willingness to pay for digital radio services.
- 4.13 In proceeding towards any digital migration, much depends on the timescale, the detail, and the industry's appetite for commercial investment and marketing. But it is more likely that the timescale suggested in the Interim Report will be met if Ofcom and Government take a series of actions to ensure the regulatory and legislative framework supports existing services and platforms so that migration could occur, for example, to facilitate greater take-up of DAB.
- 4.14 We will therefore need:
- 4.14.1 Further work on the cost benefit analysis as the markets change;
 - 4.14.2 A flexible approach to migration that is capable of adjusting to changing markets;
 - 4.14.3 A view of the future radio/audio ecosystem as a mixture of technologies, with DAB playing a primary role, but complemented by other platforms and hybrids.

Section 5

The radio industry

The different sectors within radio, and the issues facing each

- 5.1 The BBC continues to play a major role in radio in the UK, accounting for over half the audience. The BBC's five analogue UK-wide services and 46 local and nations services are complemented by five digital-only stations. The BBC has been at the forefront of promoting digital radio take-up.
- 5.2 Commercial radio services can achieve scale through UK-wide audiences, enabling them to invest in content and talent to create mass appeal services, or to make niche services viable. But historically there has been little competition for the BBC or plurality at the UK-wide level, mainly due to spectrum constraints. Digital platforms offer an opportunity for commercial radio to compete with the BBC in terms of choice and variety at a national level.
- 5.2.1 There are only three analogue UK-wide commercial services and only one of those (Classic FM) is on FM. While it would be possible to reconfigure the FM band to provide an additional two or three UK-wide services, this would take many years to achieve, would need international coordination, and would be at the expense of losing local stations.
- 5.2.2 An alternative would be to allow existing local analogue stations to merge, but at best this would also only create two or three quasi-national services, and also at the expense of localness.
- 5.2.3 DAB (or another broadcast digital platform) can overcome this spectrum limitation, because of the possibility of distributing multiple services through a single multiplex. The problem then becomes an economic one: finding the resources to invest in content until the take-up of that digital platform grows enough to provide sufficient revenues.
- 5.2.4 There is a chicken-and-egg element to this: DAB take-up has not been as fast as it might have been due to the lack of a range of well-funded, well-marketed commercial stations to complement the BBC.
- 5.3 Local radio is highly valued by audiences, for informational content such as local travel and weather, for local journalism and news, and for 'softer', community-building local content, such as discussion, entertainment guides or just a shared sense of local identity between presenter and audience.
- 5.3.1 Local radio is provided by the BBC at county level for most places in England and by nations' services in Scotland, Wales and Northern Ireland. It is also provided by over 300 local commercial radio stations across the UK ranging in population size from a couple of thousand to ten million.
- 5.3.2 Audience views of the most appropriate level of localness vary (e.g. depending on where they are in the UK) but there is a strong public service argument for ensuring that every part of the UK has both BBC local (or nations') radio alongside at least one well-resourced local commercial competitor.

- 5.3.3 We would want these commercial stations to be large enough to be viable, but also to be close enough to the communities they serve to remain relevant. This would require some restructuring of the current market.
- 5.4 Community radio is a recent innovation in the UK. Stations operate on a not-for-profit basis, generally covering small areas of up to 5km radius, and are required to deliver social gain to one or more communities.
 - 5.4.1 187 stations have already been licensed (131 are already broadcasting). Some serve geographic communities while others serve communities of interest such as minority ethnic groups, young people or religious groups. Most are staffed largely by volunteers and each station has a set of 'key commitments' - part of its licence - specifying how it will deliver social goals, for example in respect of training, access and accountability.
 - 5.4.2 While there are a large number of stations, taken together they only cover about 10% of the population and have limited financial resources and so for many consumers, community radio cannot replace local commercial radio.
- 5.5 Small-scale commercial stations (generally those under around 300,000 population or covering less than half of the relevant local DAB multiplex area) often share some of the characteristics of community radio. Many stations at this level are struggling financially. Although commercial stations have greater freedoms than community stations in terms of output and raising revenues, there may be a case for considering the small-scale radio sector as a whole (commercial plus community) in future.
 - 5.5.1 Small-scale commercial services and community services cannot generally afford carriage on DAB and in any case the size of the DAB footprint and technical characteristics of DAB do not make it suitable for small stations. For this reason, they are likely to remain on FM for the medium-term, although many are also available online.
 - 5.5.2 The further growth of community radio is now very limited due to spectrum constraints and so the proportion of the population served by community radio is unlikely to grow significantly beyond the current 10% unless a digital solution is found or spectrum is freed-up by the migration of larger local services to DAB. The aim should be to find a suitable long-term approach, possibly involving migration to digital platforms, for these stations.
- 5.6 In making recommendations to Digital Britain our aim is to put in place the regulatory and legislative conditions which will allow these different tiers of radio to thrive now and in an increasingly digital and converged world. Based on audience research and financial analysis we have so far carried out, we propose the future radio market should consist of:
 - 5.6.1 At the UK-wide level, a larger number of commercial radio stations than today: catering for both mainstream and niche audiences, providing a plurality of voices and viewpoints, complementing and competing with the BBC's existing UK-wide services.
 - 5.6.2 At the large local and Nations level, a set of viable commercial radio services in every part of the UK (probably fewer stations in number than today). These would be of a size large enough to deliver high quality local news and information services as well as 'softer' types of local content, and

would provide a plurality of voices and viewpoints, complementing and competing with the BBC's existing services.

- 5.6.3 At the most local level, a tier of small-scale stations, some commercial and some community, focusing on local programming for the communities they serve, wherever there is demand and such services are sustainable (i.e. not ubiquitous).
- 5.7 All of these services should be available free-to-access, on affordable mobile and portable devices.
- 5.8 In the event of DAB migration, the first two tiers would migrate to DAB-only, and the lowest, most local tier would remain on FM (although they may choose to simulcast on digital platforms).
- 5.9 We envisage that our proposed consultation will expand on the consumer and public benefits of each of the three tiers, and the proposed regulatory framework to deliver these.
- 5.10 The scale of the radio industry in the UK might make it difficult to sustain multiple sets of costs from different distribution mechanisms.
 - 5.10.1 Our financial analysis suggests that - compared with television - the radio industry has high operating costs, relative to revenues; and a relatively high proportion of operating costs are due to transmission (around 10% of commercial radio's revenues are spent on transmission).
 - 5.10.2 In a world where multiple distribution channels for radio content are likely to coexist, each having its own separate set of costs, there is a question of how many distribution channels are sustainable, given the scale of the UK radio industry.
- 5.11 Taking all of the above into account, if our proposed broad model is to be achieved and made sustainable, then three fundamental, linked issues need to be addressed as soon as possible:
 - 5.11.1 If DAB is to become the primary distribution platform for UK-wide and large local stations, what regulatory and legislative changes could improve its viability, so that consumers can be offered a wide range of high quality services?
 - 5.11.2 What other steps may be necessary to encourage take-up of the DAB platform, and what will be the role of other stakeholders, such as industry groups and the BBC, in achieving these?
 - 5.11.3 In a world where financial pressures on commercial stations are increasing, but localness is still valued by listeners, what regulatory and legislative changes should be made now to strike an appropriate balance between public interest in localness and financial viability of commercial radio? Such changes will need to help both analogue and digital platforms, now, during and beyond any migration to digital platforms.

Section 6

Next steps for Ofcom

Our consultation on localness regulation within our powers, and our position on AIP

- 6.1 We have a number of suggestions as to how these questions should be addressed. Our suggestions are designed to support existing services and platforms, so that digital migration could occur, but are not dependent on migration and are equally valid in a continuing analogue world.
- 6.2 Some of these suggestions are policy changes within Ofcom's powers. We will consult on proposals once the final Digital Britain report is published, and we have reflected on the suggestions of the Myers Review.
 - 6.2.1 Our consultation will specifically consider the future of the regulation of localness within the new geographic boundaries we envisage proposing.
 - 6.2.2 We are mindful of the urgent pressures faced by the industry, and will move to publish this consultation as soon as possible.
- 6.3 There is another policy area within Ofcom's current powers that we can clarify at this stage. The final report of the Digital Radio Working Group published in December 2008 recommended that "Ofcom should consider delaying the implementation of AIP on DAB multiplexes until after digital migration". Here we set out our response to this request.
 - 6.3.1 As noted in our Statement of July 2007, we consider that opportunity cost-based pricing of spectrum used for broadcasting has significant potential to improve the information that is available to those involved in deciding how spectrum is used, and to improve the incentives that exist to use spectrum efficiently. It is on this basis that we signalled our expectation to introduce pricing for spectrum used for DAB, from 2014, while noting that any such decision would need to be preceded by careful consideration of its likely impacts, including, in particular, any possible effects on public service content.
 - 6.3.2 We continue to consider that spectrum pricing can have significant long-term benefits in terms of promoting optimal use of the spectrum, which is one of Ofcom's key statutory duties. We recognise however that if a clear policy decision is taken to migrate radio broadcasting from the existing analogue platforms to DAB, we would need to look afresh at the efficiency benefits of introducing AIP to digital radio multiplexes.
 - 6.3.3 In particular, if the analysis of costs and benefits from migration indicate that migration will deliver net benefits, and a decision is made to secure this migration through regulatory requirements, this could leave very little, if any, room for further improvements in efficiency during the migration in response to AIP. If flexibility is effectively and severely constrained during the planned migration, there may be no efficiency case for introducing AIP to the spectrum used for DAB during the transition period.

- 6.3.4 Before any decision to extend spectrum pricing to DAB, we would in any event also need to have regard to the potential impacts of any price signal, including its possible effect on public service content, before taking a decision to implement pricing.
 - 6.3.5 Whether or not spectrum licence fees are set by reference to opportunity cost, it remains the case that spectrum is a scarce and valuable resource. Any decisions in future that would impose requirements to use particular spectrum should, as best practice, take into account the opportunity cost to society of that requirement, along with any costs to the broadcasters themselves and to consumers. This approach will help to ensure that the final regulatory requirement is proportionate, considering all of the relevant costs and benefits. So we would recommend that, independent of any future decision by Ofcom to introduce opportunity cost-based spectrum prices, available information about the value of spectrum should be built in to future work on the government's plan for digital migration.
- 6.4 Aside from these specific questions of localness regulation and spectrum pricing, the other issues we identify in the remainder of this paper are for Government. In the following three sections we set out our own views on possible legislative changes for each of the proposed tiers of radio, many of which build on the work done by the DRWG, reflected in the Digital Britain Interim Report.

Section 7

Recommendations for UK-wide services

Developing a wider range of strong UK-wide radio stations

- 7.1 This section contains recommendations for Government, not just reflecting Ofcom's thinking, but building on ideas from the DRWG and Digital Britain Interim Report.
- 7.2 There is insufficient spectrum to deliver more analogue UK-wide commercial stations than at present. While niche services may be delivered and be sustainable via the internet, the audiences and revenues delivered by such services are unlikely to be sufficient in the short to medium term to allow for the substantial investment in content that would be required to allow commercial radio to compete on a level playing field with BBC.
- 7.3 The only platform which can realistically achieve that in the next few years is DAB, which has the opportunity to offer scale to broadcasters and a relatively easy way to reach audiences in the ways they are used to consuming radio: on free-to-access, affordable, portable and mobile devices.
- 7.4 If and when digital migration occurs, we expect these UK-wide stations would no longer be provided on FM or AM.
- 7.5 However, the history of the provision of UK-wide digital services has not been a happy one. Digital One currently carries only 4 services, three of which are simulcasts of the 3 analogue UK-wide commercial stations. The second UK-wide multiplex, which was to have been operated by a Channel 4-led consortium, has decided not to proceed with its plans.
- 7.6 Without a strong UK-wide commercial proposition alongside the BBC's services, DAB will struggle to become the replacement platform for analogue radio.
- 7.7 We have just concluded research that considers the appetite amongst advertisers and media buyers for more UK-wide radio stations and the ability to buy those either as a single UK-wide buy or on a regional basis. We will publish this alongside our forthcoming consultation.
- 7.8 But one of the problems has been that stations have not been able to afford the carriage fees which have been charged historically at the same time as having to build an audience (and so revenues) from scratch – in other words the payback period for launching a new UK-wide station is just too long to be worthwhile. Ofcom welcomes Digital One's recent statement that it is looking at how it can lower its carriage charges to attract new UK-wide stations. We hope that such reductions will be sufficient to attract new stations, but if they are not further consideration of this area may be required.
- 7.9 **Regional FM stations could be allowed to drop local programming to become UK-wide DAB stations.**
 - 7.9.1 Using existing brands is one way to develop new UK-wide radio stations quickly: whether new entrants to radio (such as magazine brands) or existing radio brands. One possible route to new UK-wide stations would be

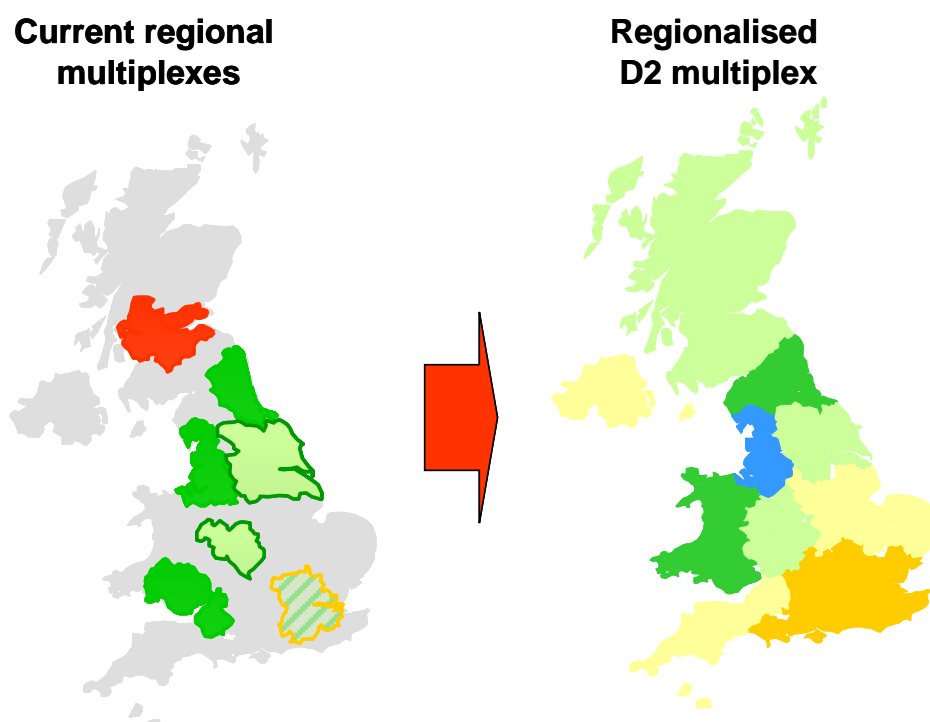
to allow the existing regional analogue stations to become UK-wide DAB stations, while retaining quasi-national FM coverage.

- 7.9.2 FM regional commercial stations must currently broadcast at least ten hours a day of locally made programming during weekday daytimes and four hours a day at weekends. While some of these regional stations, such as Real Radio in Central Scotland and South Wales, have made a strength of their regional content, for others, such as Smooth or Galaxy the regional content is less important than the type of music they play.
- 7.9.3 We suggest that Government should consider changing legislation to allow those regional stations (and in exceptional circumstances some of metropolitan stations) which have had analogue licences renewed, to retain those analogue licences in return for providing a UK-wide DAB service. Ofcom will consult on how this would be applied in practice and on the implications for the local content carried on those stations, particularly in the nations.

7.10 Regional multiplexes could be allowed to merge and expand to become a second UK-wide multiplex with the ability for regional opt-outs and advertising.

- 7.10.1 One of the downsides of this first suggestion for station operators is the potential loss of regional advertising, at least on DAB (they could continue to split regional advertising on their FM frequencies). This could be mitigated by our second suggestion, which is that Government could consider legislation to allow existing regional multiplexes (including possibly one of the existing London multiplexes) to merge and expand into currently un-served areas to form a second UK-wide commercial multiplex. Such a multiplex could carry the same set of services across the whole UK but have the ability to offer regionalised opt-outs for programming or advertising, in much the same way as ITV does on television. This would leave a single local multiplex layer across the whole UK outside London plus two UK-wide commercial multiplexes and the BBC UK-wide multiplex.

Figure 1: Proposed Regionalised D2 Multiplex



- 7.10.2 Rather than being rolled out immediately, this could be implemented in two or three years time as the market picks up.
- 7.10.3 From our discussions with the industry we are aware that there would be demand for such a policy.
- 7.10.4 While there were various caveats attached to the Cost Benefit Analysis, a second UK-wide multiplex built out of the existing regional multiplexes was one of the key conditions required to produce a positive net present value.

7.11 Extending licences for UK-wide multiplexes to 2030.

- 7.11.1 In order to be able to invest with certainty, operators need to be comfortable that they are able to make acceptable financial returns within the period of the licence.
- 7.11.2 Noting the caveats, the initial cost benefit analysis of the DRWG's recommendations by PwC suggests that the current 12 year renewals would not be sufficient to allow this. Without a further extension the costs of digital migration are likely to exceed the benefits. We therefore recommend that Government consider whether all UK-wide multiplex licences should be extended to 2030. This would also give the operators greater flexibility over pricing by, for example, being able to charge less now with the prospect of greater returns later.
- 7.11.3 Government may also wish to consider whether any commitments from the multiplex operators, for example to build out coverage to a certain level, should be a condition of this licence extension; Ofcom will consider it in the event of it being within our powers.

7.12 If ownership rules regarding multiplexes are abolished there should be rules around the number of UK-wide services any one operator can provide and around access and pricing.

- 7.12.1 We do not address the ownership rules for radio or the cross-media ownership rules in this submission. We have previously suggested, publicly and to Government, that the ownership rules for radio might be simplified. They will be covered by Ofcom's statutory review later this year. However, at this stage we suggest that if Government is considering abolition of the ownership rule for UK-wide multiplexes (which prevents control by a person of more than one UK-wide multiplex) then safeguards should be put in place to ensure that all of the services on those multiplexes are not provided by a single operator.

7.13 Coverage of the BBC stations needs to match analogue coverage if digital migration is to be achieved.

- 7.13.1 We agree with the DRWG and interim Digital Britain reports that if the criteria for digital migration are to be met, then the BBC will need to build out DAB coverage to match existing FM coverage levels. The funding of this is a matter for Government and the BBC.

- 7.13.2 UK-wide stereo FM commercial coverage (of Classic FM) is currently at 92.6% of the population of Great Britain compared with 92.6% for mobile DAB⁶ and 81.6% for indoor DAB coverage. If digital migration is to take place the coverage of UK-wide commercial multiplexes will also need to be improved. We suggest that cost effective ways of rolling-out such coverage, possibly at the same time as BBC roll-out, should be investigated.

7.14 There may be a case for publicly funded content in radio

- 7.14.1 The interim report of Digital Britain noted the need to establish whether a long-term and sustainable second public service organisation providing competition for quality to the BBC can be defined and designed, drawing in part on Channel 4's assets and a re-cast remit.
- 7.14.2 While Channel 4's recent withdrawal from radio may have tainted this possibility, we believe that if this case can be made for a new public institution for television, one can also be made for its remit extending to radio/audio services, which can be provided much more cheaply than television. This applies at both UK-wide and local levels.
- 7.14.3 The current work being done by Government and Ofcom on Independently Funded News Consortia (IFNC) may suggest another institutional source of public service radio news content, and the regionalised second national DAB multiplex we propose could be a distribution mechanism for that content.

⁶ Note: this is the same % of the GB population, but the different transmitter networks mean that it is not the same subset of the population covered in each case. These figures are based on the methodology agreed by the DRWG Spectrum Group (consisting of Ofcom, Arqiva, the BBC, and commercial radio).

Section 8

Recommendations for large local services

Providing a sustainable set of large local services in every part of the UK and services for the nations

- 8.1 Audiences still value local content on commercial radio (see above). We believe it is important that citizens and consumers in all parts of the UK have access to commercial local radio of relevance to them, but we recognise the increasing financial pressures facing the providers of such services.
- 8.2 Last year we halved the amount of localness required of licensees and simplified formats but the system is under increasing financial pressure and our modelling suggests that there are probably too many small stations to be viable in the long-term.
- 8.3 While we welcome the continued provision of small-scale radio, whether community or commercial, one of our aims, stated above, is to facilitate the provision of well resourced, viable local services in every part of the UK of a size large enough to deliver high quality local news and information services while maintaining local relevance outside of news. At the same time, given the Government's commitment to DAB, we need to ensure that the regulatory framework does not hinder any digital migration for such large local stations. It would not make sense to design a framework for local radio which was not capable of migration.
- 8.4 If and when digital migration happens, this large local tier would be broadcast on digital platforms only. While any operator either current or future, is free to contract with local multiplex operators to provide local services, in practice it is likely that it is the analogue stations which currently cover 50% or more of the relevant local multiplex area that would form this large local digital tier. The vast majority of such analogue local stations are already broadcasting simulcasts on DAB.
- 8.5 However, even if the conditions announced in the Digital Britain interim report are never realised, and digital migration does not happen, it makes sense to ensure that there is a long-term model for large local stations which will be viable in an analogue world too.
- 8.6 So, any framework needs to balance the technical constraints of DAB; financial viability; local affinities and the need for stations to be close enough to the communities they broadcast to remain relevant; and flexibility for operators within this framework to adapt to local audience needs.
- 8.7 In addition, as the main emphasis for these stations should be on localness, rather than different types of music which is now available in so many other ways, we plan to consult on the appropriateness of continuing to regulate music formats for all stations.
- 8.8 **The UK should be divided into a number of defined geographical areas as the basic building blocks for a sustainable tier of large local stations.**
 - 8.8.1 In order to facilitate the continued provision of a tier of large local radio services in every part of the UK, we are currently considering proposing a

set of local areas, based on population size and local affinities to ensure that local radio still operates in the public interest.

- 8.8.2 We envisage such areas would be based on a combination of viability (we expect this would mean populations of c. 1m or larger) and local affinities. They could be generally of the size of a single county or (in certain circumstances) two counties combined – so much smaller than the ITV television regions for example, but comparable to the BBC local areas. We envisage around 30 to 40 areas, and we would consult on the definitions of these before applying them.
- 8.8.3 We would use these new areas to inform our proposed policy on the appropriate size of station, the amount of local material on such stations, and on station co-location, which we plan to consult on following the publication of Digital Britain.
- 8.8.4 These new areas could also be used as the basis for implementation of the legislative changes proposed below.
- 8.8.5 This would provide greater clarity and certainty for station operators and reduce the number of occasions when operators have to ask Ofcom permission for changes. In exceptional circumstances Ofcom permission could be sought for arrangements across area boundaries.

8.9 The local DAB multiplexes within each area could be allowed to merge.

- 8.9.1 Some of the smaller local multiplexes are not currently viable as the local stations in their area are too small to be able to afford carriage or the area is too small to be attractive to quasi-national stations. This suggests that it may be sensible to combine some local multiplexes to increase viability. This may also reduce carriage costs as less technical infrastructure may be required.
- 8.9.2 We suggest that multiplex operators should be allowed to combine local multiplexes to increase viability within each of the areas we envisage defining (the same areas as for co-location). They could be allowed to do so provided that existing stations carried on each multiplex were not treated unfairly and forced off because they could no longer afford to cover the wider area – on the other hand, some may welcome the opportunity to cover a wider area.
- 8.9.3 Merger could involve simply carrying the same set of services across more than one multiplex to reduce operating costs, or using the same frequency across two or more areas to improve coverage, or a full legal merger of licences. Government should consider which of these to adopt.

8.10 Ofcom could be given the power to extend existing local multiplexes or reconfigure their coverage where necessary.

- 8.10.1 Not all areas of the UK have yet been awarded a local DAB multiplex. Many of these areas (such as North Devon or West Dorset) are likely to be too small to sustain viable services even in the long-term. Yet, unlike with analogue licences, Ofcom has no power to extend existing multiplex licences or to change the frequencies used by a given multiplex in order to cover these areas. We suggest that Government should consider whether

Ofcom should be given these powers to allow local multiplexes to fill-in existing gaps in coverage and to make sure services have the greatest chance of viability.

8.11 Extending licences for local multiplexes to 2030.

- 8.11.1 As for the UK-wide multiplexes, in order to be able to invest with certainty, operators need to be comfortable that they are able to make acceptable financial returns within the period of the licence. Again noting the caveats above, the initial cost benefit analysis carried out by PwC suggests that the current 12 or 8 year renewals of multiplex licences will not be sufficient to allow this. Without a further extension to licences the costs of digital migration are likely to exceed the benefits. We therefore recommend that Government should consider whether all local multiplex licences should be extended to 2030. This extension would also give the operator(s) greater flexibility over pricing by, for example, being able to charge less now with the prospect of greater returns later.
- 8.11.2 Government may wish to consider whether any commitments from the multiplex operators, for example to build out coverage to a certain level, should be a condition of this licence extension; Ofcom will consider it in the event of it being within our powers.

8.12 Stations simulcasting more than one local station in an area could be free to merge those stations on both analogue and DAB.

- 8.12.1 Within each proposed area, we would suggest that any service broadcasting a simulcast of its service(s) on the relevant local DAB multiplex(es) should be allowed to carry the same programming across all of its analogue services.
- 8.12.2 This would create local services of a sufficient size to be viable on analogue, of an appropriate size for carriage on the relevant DAB multiplex/es, and of sufficient scale to afford DAB transmission.
- 8.12.3 This would also provide an added incentive to remain broadcasting on DAB and would prepare for digital migration. This may require legislative change, but Ofcom would also intend to consult on how it should be applied in practice.

8.13 Ensuring the provision of local programming beyond any digital migration.

- 8.13.1 A mechanism needs to be found to ensure the continued provision of this large local tier of commercial radio beyond any digital migration.
- 8.13.2 There is a danger that if analogue services with their localness requirements are switched off (or even before that if the analogue audience falls and stations decide to hand back their analogue licences) that stations in some areas may decide they would prefer not to provide local programming any more. Incentives may need to be found to ensure the continued provision of local programming on DAB beyond any migration.
- 8.13.3 We do not yet have any firm suggestions, but it may be that some form of cross-subsidy of carriage costs say from UK-wide stations or from non-local stations on a local multiplex may be required. Alternatively it may be that

more public funding is required if it is determined that local commercial radio programming is still required alongside other local media at that time.

- 8.13.4 We believe that further work will be required in this area well in advance of any digital migration.

8.14 Commercial stations for each of the nations.

- 8.14.1 When we consult on our proposals regarding localness we will consider the question of radio in the nations, and specific nations services. In some cases these already exist e.g. Downtown in N Ireland or Real in Wales (albeit split between North and South). In Scotland there may be other solutions, which we will explore. There is a tension here with our suggestion outlined above, to allow regional stations to go UK-wide. We will address this tension in any proposals we consult on.

8.15 Coverage of local DAB multiplexes.

- 8.15.1 As for UK-wide commercial multiplexes, these are operated as commercial businesses and so while we would wish for coverage to be as extensive as possible this may not always be financially viable.
- 8.15.2 The issue is that local commercial multiplexes also carry the BBC's local and nations' services as there is no other means of providing these on DAB. This causes a particular problem in the nations where the BBC's UK networks may be available in some areas but not the relevant BBC nation's services. To take these off the local commercial multiplexes would risk making those multiplexes financially unviable.
- 8.15.3 We suggest that Government and the BBC should investigate ways of providing funding to increase the coverage of local multiplexes in Scotland, Wales and Northern Ireland to match the coverage of the BBC's UK-wide multiplex.

Section 9

Recommendations for small local services

Providing options for a tier of small-scale radio stations

- 9.1 There is very little spectrum left for new community radio services, while many small-scale commercial services are struggling financially and a number of them may close.
- 9.2 This tier of radio services is currently not expected to be part of any digital migration plan. These stations would remain on FM/AM unless an alternative digital distribution method is found. A migration of DAB to DAB+ may provide an answer for some of these stations in the future but is unlikely to be suitable for all.
- 9.3 It is worth noting that these stations currently account for less than 5% of all radio listening but they nevertheless make a valuable contribution to local communities.
- 9.4 In the event of digital migration we would expect that these stations will benefit from the availability of freed-up spectrum, allowing any community that wants and can support such a station to have one. But in the meantime we need to ensure that this tier of small-scale stations has sufficient flexibility to maximise their chance of success in serving their audiences.
- 9.5 We will return to this area in our consultation, but we would like to explore the possibility of allowing stations to choose which model they follow, commercial or community.**
- 9.5.1 Under the commercial model, stations could be profit making and have obligations to provide an appropriate amount of local material, a suitable proportion of which should be locally made. But we believe there may be a number of options within the commercial model which stations could choose and we will explore these further in our forthcoming consultation. For example, stations may be able to choose between:
- the current commercial model but with greater flexibility to co-locate and share more programming with other stations in their area;
 - a merger with other local commercial stations in the area, obtaining carriage on DAB to join the tier of large local stations;
 - or perhaps a more flexible commercial model whereby they propose a different set of commitments to localness which get written into their licence.
- 9.5.2 Under the community model, stations should broadcast local programming from within their licensed area; be not-for-profit and provide social gain (training, accessibility, accountability) as per their Key Commitments; and would be eligible to apply for funding from the Community Radio Fund.
- 9.6 The general policy question of how to secure the future of small scale local media services, and the respective roles of conventional profit seeking businesses and non-profit community enterprises, is one currently under much discussion in this country and abroad. As traditional media businesses struggle to adapt to fragmenting

audiences and changing the economics of content production and distribution, new models of community media are emerging. It is not a discussion we could do justice to in the space available here, and further research is required. Ofcom's forthcoming work looking across local media will take these questions forwards. We expect this will inform future radio policy, as well as providing some answers about how radio might fit into a wider media ecology at the local level.