

# The Future of Radio Consultation

Philip Graf, Ofcom Deputy Chairman, Chair of the Content Board and the RLC  
Peter Davies, Director of Radio & Convergent Media

17 April '07

## The challenges

- Radio advertising stalling as advertisers switch to newer media
  - revenues down by 4.5% in year to Q3 2006 and have fallen in each of the last 6 quarters (local revenues are hit hardest)
  - 40% of stations lose money (particularly the smaller ones <100k pop)
- Digital platforms taking an increasing share of listening
  - now 14% of listening
  - forecast to grow to 90% in 10 years
- As share of listening falls, the existing pattern and number of local analogue commercial stations may not be sustainable
  - *Discussion document responses broadly supported this view, but some urged caution in acting too quickly*

## Overall aims of the project

- A new framework for regulating commercial and community radio which will
  - Take account of transition from analogue to digital platforms and the challenges faced by the industry
  - Be proportionate, consistent across different broadcast platforms (as far as possible) and targeted at cases where action is needed
  - Facilitate the development of a healthy future radio landscape across national, local and community sectors
- We recognise that some of the changes we suggest are matters for Government and Parliament to consider should they see fit

## Long-term radio landscape and the focus of regulation

- Still lots of uncertainty about the future, but we expect DAB to form the backbone of broadcast radio provision in 10-15 years' time
- **National stations** – Delivered by DAB (& perhaps DRM). Main regulatory role = diversity of stations, catering for different tastes and interests. No more content regulation than at present on DAB.
- **Local stations >250,000** – Delivered by DAB. Main role = localness. DAB multiplex for every part of UK to ensure universality of provision.
- **Smaller local stations <250,000** – Delivered by FM or DRM. Availability subject to market demand, so no guarantee of a station in every part of UK. Minimum localness provisions, as still using scarce spectrum.
- **Community stations** – Delivered by FM or DRM. Available to any community that wants and can sustain a station. Operated not for profit. Main role = social gain.

## Key elements of the project

- Content and ownership rules – Formats, localness and ownership - reducing regulation where possible and aligning digital and analogue rules
- Providing the flexibility to free-up spectrum – FM and AM
- Consideration of the current rules surrounding community radio (for a DCMS requested review this year)
- We suggest a number of areas where Government may want to consider bringing forward new legislation in due course, should it see fit

## PROPOSALS

- 1. The regulation of content on analogue commercial radio and on DAB digital radio should be aligned, at the appropriate time.*
- 2. There may be a case for Government to consider bringing together the ownership rules regarding analogue commercial radio and DAB digital radio into a single set of rules as the proportion of listening accounted for by digital platforms increases.*
- 3. While we do not currently propose that a date should be set for the switch-off of analogue (FM and AM) radio, we should aim to maximise flexibility in the licensing system so as to be able to free up that spectrum for other uses, when the time is right.*
- 4. Radio services, including those designed to deliver public purposes, should be able to be licensed on any spectrum in a technology neutral way.*

## PROPOSALS

- 5. Ofcom will generally approve changing a digital sound programme service from stereo to mono in circumstances when it considers that the reduction in sound quality of the service whose technical parameters is being changed is outweighed by the benefits to citizens and consumers of the use to which the freed-up capacity is to be put.*
  - 6. The characteristics of community radio, based around social gain provided by stations on a not-for-profit basis remain key. However, there may be an argument for simplifying the statutory selection criteria, and the regulation of funding and ownership, without losing the essence of what community radio has been set up to achieve.*
- We have developed a range of options for delivering each proposal and make suggestions as to the best way forward if the proposal is accepted.*
  - Some of the proposals and suggestions are not achievable under current legislation. Where the options relate to potential legislative changes, Government may wish to consider them in the future, should the possibility of introducing new legislation be taken forward.*

# Commercial radio: Content issues

## *Proposal 1:*

*The regulation of content on analogue commercial radio and on DAB digital radio should be aligned, at the appropriate time.*

## Local Formats

- Formats are the way we ensure we meet our statutory duty to ensure diversity of services and are key in licence award decisions
  - Analogue Formats still contain some detailed requirements (e.g. length of news bulletins, evening specialist music programmes)
  - Digital Formats just 2 or 3 lines giving character of service
- To remove Formats completely when majority of listening is on analogue would not guarantee diversity of stations catering for different tastes and interests
- Even in a fully digital world (if DAB) some diversity requirements may still be desirable
- **Suggestion: Analogue Formats should be brought into line with DAB Formats, when an appropriate level of digital listening is reached**

## National Formats

- Two of the three analogue national commercial stations have statutory content requirements (one must be non-pop, one mainly speech)
- One of the criteria for awarding a national DAB multiplex licence is the capacity of its services to appeal to a variety of tastes and interests

- **Suggestions:**

- **Government may wish to consider removing the statutory content restrictions on national analogue services as digital listening increases**
- **The requirement for national DAB multiplexes to cater for a variety of tastes and interests should remain**

## Localness - analogue

- We have a statutory duty (CA 2003) to ensure that local analogue commercial stations provide an appropriate amount of local material, with a suitable proportion locally made
  - We could leave the amount of localness completely to the market, but this risks the disappearance of local services in a number of areas
  - We could allow changes on a case by case basis (as now), but this does not deliver maximum transparency or regulatory certainty.
- **Suggestion: Ofcom guidance on minimum levels of localness based on station size to give smaller stations the most flexibility but still providing larger stations with some leeway.**

## Localness - analogue

Type of licence	Programming requirements
FM and AM stations with populations under 100,000 (67 stations)	Minimum four hours per day of locally-made programmes (all in peak time) with local material including local news
FM stations with populations of 100,000 – 250,000 (62 stations)	Minimum eight hours per day of locally-made programmes each weekday (at least four hours in peak time and all eight within daytime) with local material including local news; minimum four hours per day of locally-made programmes at weekends (in daytime) with local material including local news
FM stations with populations over 250,000 (125 stations,)	Minimum 13 hours per day of locally-made programmes each weekday (including all peak time and at least ten hours in total in daytime) with local material including local news; minimum six hours per day of locally-made programmes at weekends (in daytime) with local material including local news.
AM local stations with populations over 100,000 (54 stations)	Minimum four hours per day of locally-made programmes each weekday (all in peak time) with local material and local news for all AM stations, plus local material drop-ins throughout daytime for larger AM stations (over 250,000 population)

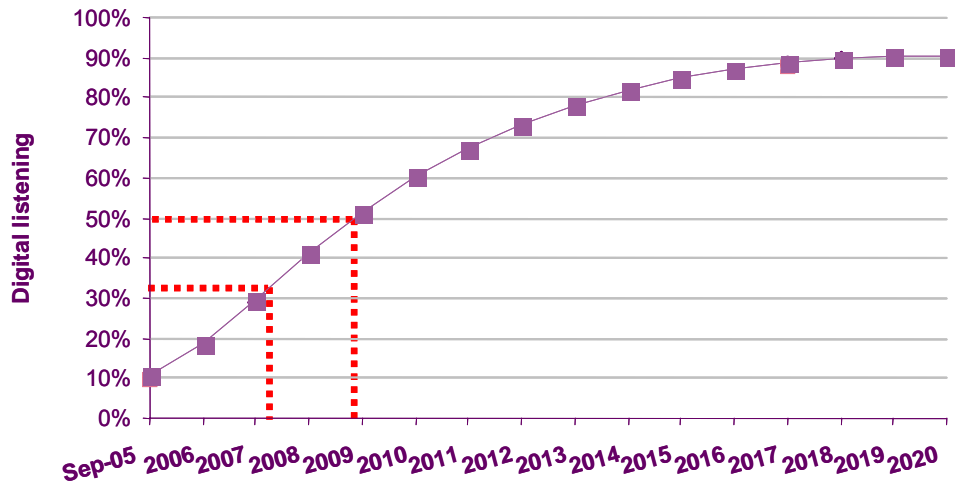
## Localness – digital

- Ofcom’s statutory duty for local material and local production applies only to analogue radio and does not cover digital radio
  - As digital listening comes to predominate (and perhaps analogue radio disappears), there is no guarantee that every area of the UK would continue to receive local radio services
  - We do not propose to require an increase in the amount of local programming already provided on DAB (where it exists) but it may need safeguarding in the future
- **Suggestion: Government may wish to consider allowing Ofcom to consider the provision of localness across analogue and digital stations in an area taken together on a platform neutral basis (and whether this should also include future platforms such as DRM).**

## Timing of changes

- The rationale for change is linked to an increase in digital listening (across all platforms), so we think the timing of implementation should be too.
- We welcome views on possible timing:
  - 33% (around 2008); or
  - 50% (around 2010)

Digital listening as percentage of total listening



**Suggestion: The timing of Format and localness changes (where legislation is not required) should be linked to the overall level of digital listening. We suggest a threshold of 33%**

# Commercial radio: Ownership issues

## *Proposal 2:*

*There may be a case for Government to consider bringing together the ownership rules regarding analogue commercial radio and DAB digital radio into a single set of rules as the proportion of listening accounted for by digital platforms increases.*

## Ownership rules

- Ownership rules are designed to secure plurality. There are currently separate rules for analogue station ownership, digital station ownership, DAB multiplex ownership and for cross-media ownership
  - We could propose that the rules are no longer required, but this seems inappropriate as we think there is still a need to protect plurality in this area
  - We could leave them as they are, but they are complex and not platform neutral
- As digital listening increases, separate analogue and digital rules may no longer make sense. Any change is a matter for Government to consider in due course

- **Suggestions:**
  - A single set of station ownership rules, based on defined (DAB) areas
  - Local DAB multiplex ownership rules relaxed; national rule retained
  - Cross-media rules across analogue and digital
  - Changes tied to increased digital listening

## Ownership rules

- Bringing analogue and digital together – an example



<b>Multiplex area</b>		<b>Liverpool</b>		<b>TOTAL POPULATION</b>		<b>1,819,227</b>											
<b>AREA</b>	<b>An.</b>	<b>DAB</b>	<b>STATION</b>	<b>POPULATION</b>	<b>Ownership</b>												
					<b>UTV</b>	<b>Gcap</b>	<b>Chrysalis</b>	<b>Emap</b>	<b>GMG</b>	<b>TLRC</b>	<b>UBC</b>	<b>Other</b>	<b>TOTAL</b>				
Liverpool	y	y	Radio City	1,819,227				8								8	
Liverpool	y	y	Magic 1548	1,819,227				8								8	
Liverpool	y	y	3C	1,819,227				8								8	
Liverpool	y		Classic Gold	1,819,227								8				8	
Liverpool	y		Heat	1,819,227				8								8	
Liverpool	y		Kerrang!	1,819,227				8								8	
Liverpool	y		Kiss	1,819,227				8								8	
Liverpool	y		Smash Hits	1,819,227				8								8	
Liverpool	y		Xfm	1,819,227		8										8	
N W England	y		Arrow	1,819,227			8									8	
N W England	y		Capital Disney	1,819,227		8										8	
N W England	y		Choice	1,819,227		8										8	
N W England	y		LBC	1,819,227			8									8	
N W England	y	y	Galaxy	1,819,227			8									8	
N W England	y		Heart	1,819,227			8									8	
N W England	y		Real	1,819,227					8							8	
N W England	y	y	Century 105.4	1,819,227					8							8	
N W England	y	y	Smooth 100.4	1,819,227					8							8	
Wrex./Chest/Wirral	y		Marcher Sound/Buzz	503,620		5										5	
Wrex./Chest/Wirral	y		Class. Gold Marcher	319,793								3				3	
Chester	y		Dee 106.3	98,745		1										1	
Knowsley	y		The Rocket	231,468									2			2	
Warrington	y		Wire	189,091	3											3	
Wigan	y		Wish	370,562	3											3	
Liverpool	y		Juice	675,905	5											5	
Southport	y		Dune	158,812							2					2	
<b>TOTAL POPULATION</b>					<b>11</b>	<b>30</b>	<b>32</b>	<b>56</b>	<b>24</b>	<b>2</b>	<b>11</b>	<b>2</b>	<b>168</b>				
					<b>6.5%</b>	<b>17.9%</b>	<b>19.0%</b>	<b>33.3%</b>	<b>14.3%</b>	<b>1.2%</b>	<b>6.5%</b>	<b>1.2%</b>	<b>100.0%</b>				

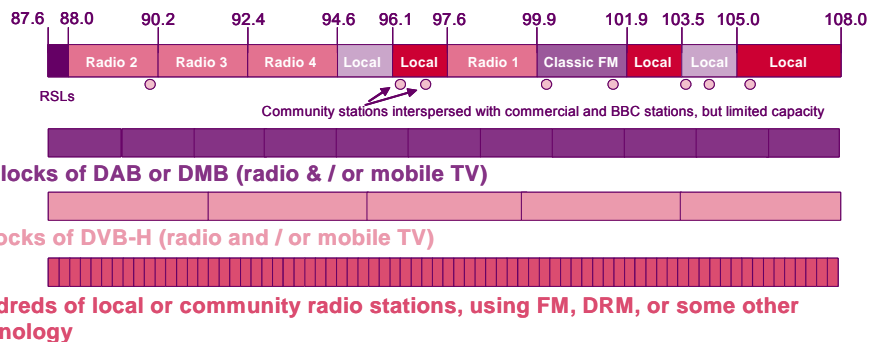
# Flexibility to free-up spectrum

## *Proposal 3:*

*While we do not currently propose that a date should be set for the switch-off of analogue (FM and AM) radio, we should aim to maximise flexibility in the licensing system so as to be able to free up that spectrum for other uses, when the time is right.*

# There are alternative uses for analogue radio spectrum

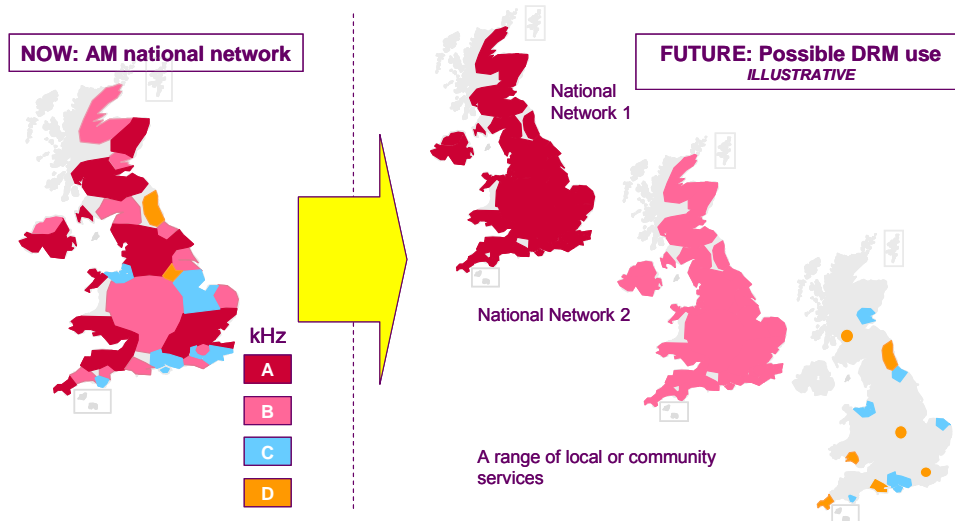
For the spectrum currently used for FM radio .....



...or something not yet thought of.

or it could be used for a different set of FM radio services

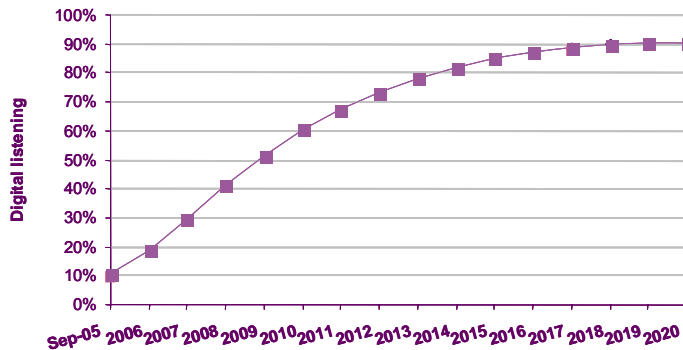
... and the spectrum currently used for AM radio



## Digital listening (across all platforms) is expected to dominate listening in 10 years' time

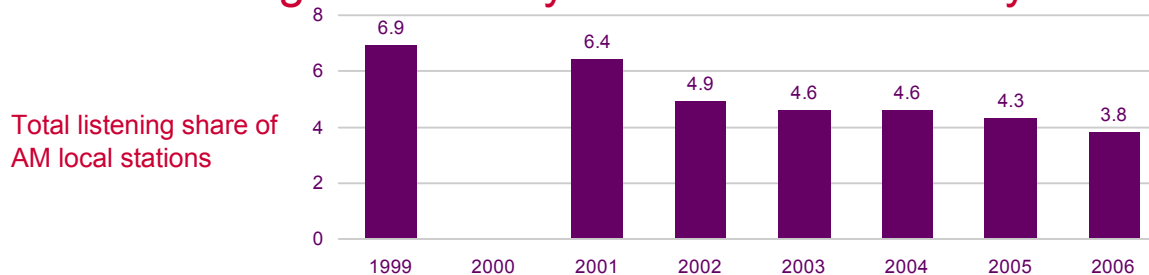
- By 2018 listening on digital platforms could account for 90% of all listening

Digital listening as percentage of total listening



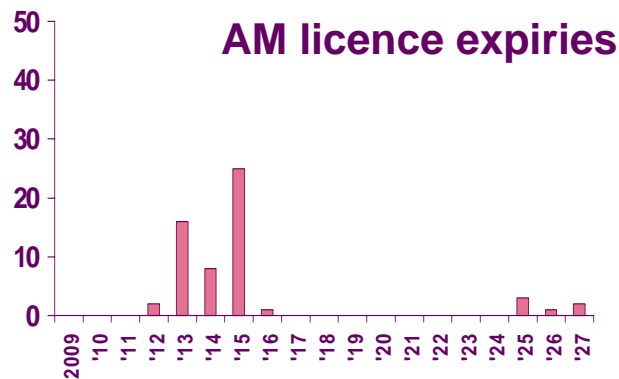
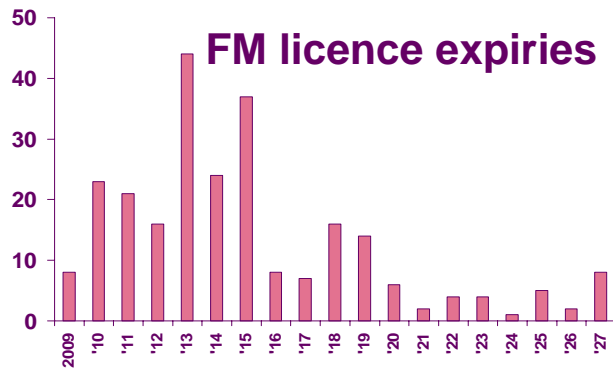
- The proportion of listening accounted for by different digital platforms and the timescales for change are uncertain, but the trend is unmistakable

- And AM listening has already declined dramatically



## The pattern of existing licence expiries makes spectrum reallocation for different uses more difficult

- Existing analogue licences expire at different times over the next 20 years



- But the alternative uses (particularly for VHF Band II / FM) may require the spectrum to be packaged in different ways
- This means that the majority of spectrum in each waveband must be released simultaneously to maximise flexibility for re-use**

## **There is too much uncertainty to set the right end-dates now**

- The majority of listening is still to analogue radio and a date should not be set without much more certainty about the future and following a full cost-benefit analysis, including assessment of impact on the vulnerable members of society.
- DAB coverage needs to be improved (including universality for BBC services) before analogue switch-off could be achieved
- The question is how to provide flexibility for the future

## **A common licence end-date and future spectrum flexibility cannot be achieved under current legislation**

- There is a statutory 12-year renewal for any analogue licence whose holder also provides a service on a relevant DAB multiplex
- There is no flexibility for Ofcom to vary the end-point of a licence (either to extend it once it is awarded, or to shorten it without the consent of the licensee)

## Existing licence expiries and new licences

- At present the legislation effectively requires that, as licences expire, they are re-advertised for up to 12 years.
- Because of the uncertainty around the end-date, we suggest Government may wish to consider new legislation to extend all existing licences indefinitely, but to allow Ofcom to terminate such extended licences with appropriate notice.
- **New legislation and its timing is a matter for Government & Parliament but it would be required to achieve a common end-date for licences and maximum flexibility for spectrum to be reallocated for alternative uses**

## Achieving flexibility

- **Suggestions:**
  - Two reviews to set common end-dates for commercial and BBC services:
    - VHF Band II (FM) review in 2012, or when listening on digital platforms accounts for 50% of all listening, whichever is the earlier;
    - Medium wave (AM) review in 2009.
  - Licences re-awarded under the current statutory framework should be granted with an expiry date of 31 December 2015.

### If there is new legislation:

- The 12-year analogue renewal provision for analogue licensees also on DAB should be removed (not retrospective).
- All existing licences should be extended for an indefinite period, but with a 2 year termination clause for new or extended licences.
- So as to maximise local DAB coverage, Ofcom should be able to increase the licensed areas of existing DAB local multiplex licences.

# New ways of licensing radio

## *Proposal 4:*

*Radio services, including those designed to deliver public purposes, should be able to be licensed on any spectrum in a technology neutral way.*

## New ways of licensing radio

- Awarding licences for radio on a technology neutral basis is not possible because legislation
  - sets out different award procedures and regulatory frameworks for multiplexes and single-stream broadcasts
  - assumes that single-stream broadcasts will use analogue rather than digital technology.
- Under current legislation Ofcom cannot license terrestrial radio services which will be regulated for public purposes without beforehand having determined the technology and spectrum for that service
- This limits our ability to license new technologies such as DRM

## New ways of licensing radio

- **Suggestions:**
  - **New technology and spectrum-neutral licences – some services may include conditions relating to public purposes (localness, diversity); some may not.**
  - **Any new radio licences for the provision of radio services could be granted for an indefinite period, with a guaranteed 5 year minimum term and a 2 year termination clause.**
  - **Any new licences for public purposes could be awarded by auction, but with conditions attached to the licences to secure these purposes.**

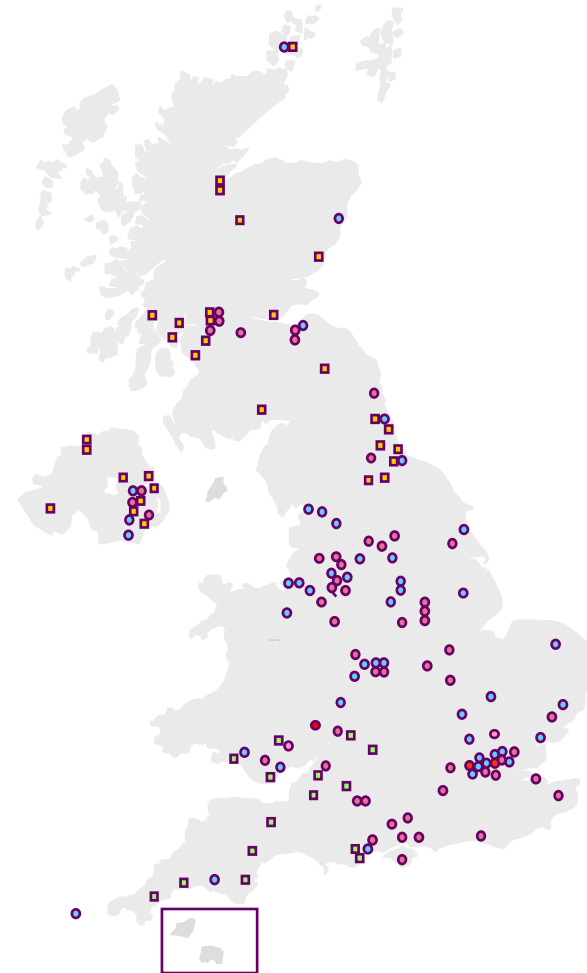
# Community Radio

## *Proposal 6:*

*The characteristics of community radio, based around social gain provided by stations on a not-for-profit basis remain key. However, there may be an argument for simplifying the statutory selection criteria, and the regulation of funding and ownership, without losing the essence of what community radio has been set up to achieve.*

## Community radio – third tier of radio

- New legislation was introduced in 2004
- Licensing began in 2005
- High level of demand from potential operators
- 122 licences awarded; 43 on-air
- Applications still being received
- Ofcom asked to carry out a review for DCMS, 2 years after first station launched
- Report not due until autumn but this consultation sets out our early thoughts



## Community radio characteristics & selection criteria

- A new sector with few resources, yet it is the most heavily-regulated sector with very detailed selection criteria, and strict funding and ownership rules
- We believe the sector's key characteristics as currently defined are correct
  - Provided primarily for the good of the communities & to deliver social gain
  - Be intended primarily to serve one or more communities
  - Be provided not-for-profit
  - Offer members of the community opportunities to participate.
  - Be accountable to the community.
- But the selection criteria for awarding licences are complicated and may deter applicants.
- **Suggestions:**
  - The characteristics are the right ones but “social gain” should be redefined
  - There may be a case for simplifying the statutory selection criteria

## Community radio funding

- There are strict funding limits around the sources of income and the percentage of total revenue that may come from each source
- Community stations may not set up in areas where there is a small commercial station, yet there is no restriction on new commercial stations in those areas.

- **Suggestions:**

- Diversity of funding remains important but the current funding limits may be too strict
- There may be a case for including volunteer time when assessing turnover
- There may be a case for removing the requirement to consider the economic impact of licensing community radio services

## Community radio ownership and licence duration

- At present, ownership is limited to one station
- **Suggestion: The current rule may be overly restrictive and should be reconsidered**
- Stations have only a single 5 year licence with no renewal provision
- **Suggestion: Stations should be eligible for a one-off five year extension (in some cases it may be less in order to achieve a common end-date for analogue switch-off)**
- **We will undertake further analysis of community radio over the summer. It will then be for Government and Parliament to assess Ofcom's proposals and take any action they see fit.**

# Next steps

## Next steps

- Consultation opens today
- Closes 29<sup>th</sup> June
- Statement expected in the Autumn
- Where proposals would require new legislation, it will then be for Government to consider whether any of the proposals warrant further consideration and how they wish to take this forward