



Local and Regional Media in the UK

Discussion
Document

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Section 1

Executive summary

This report stems from our statutory duties¹

- 1.1 Ofcom has statutory duties to secure the availability throughout the United Kingdom of a wide range of television and radio services of high quality and wide appeal and to maintain sufficient plurality of providers of different television and radio services.
- 1.2 We also have a duty to ensure optimal use of the radio spectrum, including whether and how we make spectrum available for digital terrestrial television (DTT) services. In performing those duties, Ofcom must, among other things, have regard to the different needs and interests of everyone who may wish to use the spectrum for wireless telegraphy, including use of spectrum for local television.
- 1.3 In carrying out these duties, we have undertaken a series of separate studies to understand the challenges facing the delivery of content to consumers and citizens across the UK, with a particular focus on local content. This report brings together the evidence and analysis which underpins this work, assessing how well local content is being delivered to consumers and citizens, and examining the prospects for delivery in the future.
- 1.4 Ofcom also has duties specific to radio broadcasting, which include the licensing of local commercial and community radio stations and maintaining a range and diversity of local stations broadcasting local material. In fulfilling this duty, the report refers to changes to the regulation of commercial radio which we set out in a separate consultation in July².
- 1.5 In addition, Ofcom has a duty to report and make recommendations to the Secretary of State at least every three years on the operation of the media ownership rules, which include rules relating to local media ownership. In a separate report published in July, we have consulted on the liberalisation of the local media ownership rules, prior to making our recommendations to the Secretary of State later in the year.
- 1.6 In the future, following the Office of Fair Trading's (OFT's) recent review of the local and regional media merger regime³, Ofcom will also be required to conduct a Local Media Assessment in cases relating to local media mergers involving one or more local or regional newspapers which raise prima facie competition concerns.

The report is set in the context of existing work by Ofcom and Government

- 1.7 In our Second Public Service Broadcasting (PSB) Review, 'Putting Viewers First' completed in January 2009⁴, we focused on the historic and continuing importance of TV programming from the nations and regions.

¹ For further details on our statutory duties, please see Annex 1 at the back of this document

² Ofcom (2009) *Radio: the implications of Digital Britain for localness* regulation [Internet] London Available from: Ofcom <http://www.ofcom.org.uk/consult/condocs/radio/condoc.pdf>

³ Office of Fair Trading (OFT) (2009) *Review of the local and regional media merger regime Final Report* [Internet] London Available from: OFT http://www.offt.gov.uk/shared_offt/mergers_ea02/oft1091.pdf [Accessed 19 August 2009]

⁴ Ofcom (2009) *Ofcom's Second Public Service Broadcasting Review: Putting Viewers First* [Internet]. London. Available from: Ofcom

- 1.8 In the review, we recognised that there were growing pressures on traditional models of delivering content to audiences across the different parts of the UK. We also highlighted the growing importance of content aimed at local audiences and the potential for new models of delivery of such content.
- 1.9 We concluded that we needed a more detailed analysis on the provision of public service content at a local level and consider the broader issues in the provision of local content across different media platforms.
- 1.10 The Government's *Digital Britain Final Report*, published in June 2009⁵ also highlighted the importance of news and local journalism for democracy and considered a range of issues relating to the future of local media. One of the key recommendations of the report was a consultation on *Sustainable independent and impartial news; in the Nations, locally and in the regions*⁶. Ofcom's response to this consultation is published alongside this report.⁷
- 1.11 In summary, this report brings together Ofcom's research and analysis which is relevant to the various duties in relation to the provision of local and regional content across the UK. It reviews a range of opportunities and initiatives for sustaining a healthy and vibrant local media sector in the future. The report also provides an evidence base behind our response to the DCMS consultation.
- 1.12 In undertaking work on this report, we have recognised the critical role that local newspaper journalism plays in delivering public purposes. Local newspaper journalism not only underpins the delivery of local news on other media, but also makes a key contribution to the national news agenda. However it is important to stress that Ofcom does not regulate the content of newspapers, a role which is fulfilled by the Press Complaints Commission⁸.
- 1.13 While consumer definitions of local are blurred, this report primarily covers media on a regional (county or broader geographic area), local (town or local district) and ultra-local (immediate community or neighbourhood) basis. We also cover some of the broader media issues in the devolved nations of Scotland, Wales and Northern Ireland.

The UK local media landscape is diverse but consolidating

- 1.14 In radio, there are approximately 80 commercial local radio operators, managing circa 300 services, in addition to a growing number of community radio services. Over 200 community radio stations have been licensed to date with more than 150 already broadcasting. One of the main features of the local media sector today is its diversity. Alongside the main television broadcasters, there are around 90 regional and local newspaper publishers accounting for approximately 1300 titles.
- 1.15 However, few providers operate across all media platforms, with most concentrating on a single platform. In recent years the sector has consolidated, with five groups accounting for around 70% of newspaper title ownership, two groups accounting for

http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/psb2statement.pdf

⁵ Department for Culture, Media and Sport (2009) *Digital Britain: The Final Report* [Internet]. London, TSO. Available from: Department for Culture, Media and Sport

http://www.culture.gov.uk/what_we_do/broadcasting/6216.aspx [Accessed 19 August 2009]

⁶ http://www.culture.gov.uk/what_we_do/broadcasting

⁷ <http://www.ofcom.org.uk/consult/ofcomresponses/dcms.pdf>

⁸ See the PCC website for more information on the PCC at <http://www.pcc.org.uk/>

40% of radio station ownership and a single company holding all Channel 3 licences in England and Wales.

Consumers value local and regional content, and particularly local and regional news

- 1.16 Nine out of ten UK adults regularly consume some form of local news, information or other content through television, radio, newspapers or the internet. Each of these platforms plays a complementary role in providing relevant news and information and enables people to keep in touch with their local community. Regional TV news is watched at least once a day by four fifths of adults; about half listen to local radio or read a free paper at least weekly; two fifths read a paid for paper at least weekly while around one in five use commercial news websites.
- 1.17 Consumers and citizens value the role local and regional content plays in their lives; local and regional news in particular helps to inform people about what is going on in their local community, while news and other types of local content contribute towards reflecting UK cultural identity and representing diversity and alternative viewpoints.
- 1.18 Local and regional newspapers play a particularly important role in informing, representing, campaigning and interrogating and thus underpinning awareness and participation in the democratic process. Newspaper journalism is also a crucial part of the local and regional media ecology because it supports journalism on other platforms.

But the local media sector is facing major structural challenges, driven by the growing take-up and use of the internet

- 1.19 People are changing the way they access and consume local and regional media. Newspaper circulations have been in slow and consistent decline for the last 30 years; more recently there have been reductions in the consumption of regional television and local radio.
- 1.20 At the same time the internet has become an increasingly important part of the local media mix. A third of adults with broadband access say they use local websites at least weekly while consumers say they value the internet for accessibility, convenience and quality of information.
- 1.21 However the internet has had a significant impact on the consumption of other media, particularly newspapers. While the internet is the main source of news for just 6% of adults, nearly 10% of recent broadband adopters say they spend less time reading local newspapers and a quarter of those accessing local websites say they do so instead of reading the hard copy.
- 1.22 The local and regional media sector is also facing significant economic pressures as a result of structural change in advertising markets.
- Display advertising revenues have been static or in slow decline for several years. This has affected TV and local radio most seriously.
 - Classified advertising revenues (particularly property, motors and jobs), have been undergoing a structural shift from local newspapers to the internet, and particularly UK-wide internet sites, like Rightmove and Autotrader. This has had a major impact on local newspaper revenues.

- Competition is also emerging at a local level from a range of sources. As recognised in the Government's *Digital Britain Final Report*, public sector bodies have begun to produce their own newspapers, magazines and websites, which compete for both consumers and, in some cases, advertising revenue. Local and Regional media businesses have publicly opposed these developments.
- Other examples of structural change include a reduction in public sector spending on local newspapers. For instance, in Scotland, local authorities are no longer required to publish public notices in a local newspaper and many public bodies now use their own websites to advertise jobs instead of their local newspaper.

The recession has put even more pressure on the local and regional media business model

- 1.23 The recession has accelerated these structural trends, with newspaper readership declining more rapidly over the past two years, accompanied by a marked deterioration in advertising revenues across the local media sector. Both of these have placed additional pressure on industry profitability. Many local media companies have responded with cost efficiencies, redundancies and closures.
- 1.24 The scale of the recession has also raised questions over the ability of some firms to meet their business commitments in the short term, with many of the major players carrying high levels of debt. Some have referred to this as a 'crisis' in the local media industry.

There is a clear threat to continued provision of an alternative regional TV news service to the BBC

- 1.25 Regional television news is one of the areas of public service content most valued by audiences. Around half of adults say it is their main source of local news, and three quarters believe that it is important to have regional news available on channels other than the BBC. ITV regional news regularly attracts 20% of the available audience, delivering significant reach and impact. In 2008, viewing to BBC and ITV regional news programmes was 10% higher than the UK-wide early evening news bulletins.
- 1.26 While consumers value local content for their news and information needs, regional news on Channel 3 delivers the reach and impact which more local TV or web services cannot yet provide.
- 1.27 In our *Second PSB Review*, we concluded that regional news on Channel 3 was at risk. Growing penetration of digital television and audience fragmentation were putting pressure on the Channel 3 business model, making it increasingly difficult for the Channel 3 licensees to fulfil their public service obligations. Regional news bore the highest cost of all public service obligations and was most under threat.
- 1.28 Since that Review, ITV plc has said it would no longer be able to sustain its current service beyond 2010, threatening the delivery of regional news in England, and the current national news service for Wales. In Scotland and Northern Ireland, STV (in the short term) and UTV (in the medium term) are also facing deficits on their respective licences.
- 1.29 Our own analysis, set out in our response to the DCMS consultation on *Sustainable, independent news' in the Nations, locally and in the regions*, shows that the costs of the Channel 3 licences to provide ITV television programmes across the UK will outweigh the benefits by 2012. Our response says the Channel 3 network licences

could be between £38m and £64m in deficit in 2012, and new funding will be required to maintain regional news on Channel 3.

The short term outlook for local commercial radio also looks uncertain

- 1.30 Commercial radio advertising levels have consistently failed to keep up with the rest of the market over recent years, as radio display advertising has migrated to the internet. Industry revenues declined by 7% in 2008 and analysts predict that radio revenues will continue to decline in 2009, based on data available from trading statements.
- 1.31 If the most pessimistic forecasts of industry revenue are realised, many commercial radio stations serving fewer than 750,000 people, could be loss making by the end of this year, potentially threatening the delivery of news and other local material to some local communities, and the provision of other valued types of local content.

Local and regional newspaper journalism could be at risk if the industry fails to recover from the current downturn

- 1.32 We have looked at the threat to local and regional newspapers both in terms of the business and practice of local news journalism, given the role they play in the wider local and regional media ecology.
- 1.33 Structural changes in advertising markets and the impact of the recession have raised concerns around the scale of newspaper closures and job losses affecting local newspapers. Our analysis shows that so far, newspaper closures have been mainly weekly free sheets in highly competitive markets. The majority of redundancies in local newspapers also appear to have been in functions which are not core to newsgathering, such as advertising sales and pre-production.
- 1.34 Nevertheless it is far from certain that local and regional newspaper businesses will fully recover from the recession. Some property and display advertising may return, and newspaper owners may be able to make further savings; however operating margins are likely to be much reduced, and some currently unprofitable titles could continue to lose money for some time.

The future shape of the local and regional media sector should be determined by the needs of citizens and consumers

- 1.35 There is a broad consensus among consumer and industry stakeholders that a healthy and vibrant local and regional media ecology would have the following characteristics:
- A wide choice of local content, covering news, information and community life
 - Available across traditional media platforms (TV, radio, newspapers) but also through the internet
 - Delivered by a healthy and vibrant commercial media sector, but also from organisations employing a range of different ownership models, including public sector and not-for profit
 - Underpinned by a spine of strong and independent local journalism
 - Delivering public interest outcomes to citizens and consumers

- 1.36 To date, intervention in the local media sector has been designed to support the delivery of public service objectives and has been limited to television and radio. It has historically focused on three areas: use of spectrum assets, regulation of positive content obligations, and the BBC.
- 1.37 In setting out our research and analysis, we also acknowledge the contributions of a wide range of local and regional media stakeholders who are interested in sustaining a healthy and vibrant local media sector in the future.

Government proposals for independently funded news consortia could deliver plurality, partnerships and a greater degree of localness in TV news

- 1.38 The Government has set out its proposals for a publicly funded contestable model to provide an alternative regional news service to the BBC with sufficient reach and impact. In tandem with this, we have carried out further work into how news consortia could provide a more ambitious, cross-media proposition for local news.
- 1.39 The Government's proposals are for three pilot schemes, taking place in Scotland, Wales and one English region. These pilots would need to begin as early as possible - ideally in 2010, subject to a consultation on funding. Future funding beyond 2012 could result in further services rolling out across the UK.
- 1.40 Consortia could include but not be limited to existing television news providers, (including the incumbent Channel 3 broadcasters), newspaper groups, independent production companies and newsgathering agencies. They would be chosen against a range of public criteria, including the ability to achieve reach and impact; high production and editorial standards and the financial stability to sustain the service at quality throughout the period of the award.
- 1.41 While consortia would operate on a regional footprint, there are opportunities to develop services on a much more local basis, by extending coverage around more local transmission patterns, and by using news content gathered by consortia to stimulate a range of local services across media.
- 1.42 At the same time, the consortia could offer new opportunities for partnerships between local newspapers and other organisations, including the BBC, and create new commercial and community options for localness in television, radio and on the internet. A range of local news providers could contribute to, and have access to, consortia news footage.
- 1.43 If it is the case that news consortia are used to address the challenge faced by the Channel 3 licence deficit, they will need to be based on contracts that are sufficiently long to make it worthwhile for potential bidders, while at the same time recognising that the initial licence term of the current Channel 3 licences expires in 2014.

Spectrum released by digital TV switchover could help to deliver new local TV services.

- 1.44 Local television has the potential to deliver public purposes, whether through commercial or not-for profit services. The success of community radio in particular shows that voluntary and community based local TV services may play an important role in the local media sector in the future.
- 1.45 However, while consumers see the value of local TV, awareness of current services is low and there are concerns about quality. On a commercial basis, the economics

of running a local television service are challenging. However, digital switchover could create new opportunities for delivering local TV services in the future.

- 1.46 We have identified three different models in which local TV might be made available to UK viewers:
- A networked service: Taking this approach, viewers would receive a single, networked service, with content broadcast from a central location. This would be supplemented by local 'opts' at certain times of day in areas where a local TV station is broadcasting. This is similar to the affiliate model of local TV in the US.
 - A standalone local TV service: In this scenario, local TV stations would broadcast content specific to their own local area. Stations would be independent of each other and viewers would only receive content where a local TV station is operating. This is similar to the current Channel M service operating in Manchester.
 - A hybrid service: Local TV stations would broadcast content specific to their local area, but at the same time they could join together to create syndicated content, available to viewers of all member stations. Syndicated content could be broadcast at specific times, or member stations may decide when to schedule it themselves.
- 1.47 Taking these three models, there are a number of possible approaches for stimulating the development of local TV in the UK.
- 1.48 One approach could be for the Government to reserve capacity on an existing DTT multiplex from 2012 (also known as the Channel 6 proposal). This could enable a UK-wide local TV network, accompanied by locally-targeted output. Such a service could deliver significant reach and impact and deliver universal coverage across the UK. However, there would be a significant opportunity cost in using DTT capacity for this purpose.
- 1.49 Another approach would be to use spectrum made available by digital switchover (in particular interleaved spectrum) for local television services. Use of this spectrum could enable local TV to be delivered in a large number of locations across the UK, but would not deliver universal coverage. Operators might use the spectrum to create a network of local stations around a single sustaining feed of content. Alternatively, operators might bid for individual lots of spectrum to run local services independently of each other.
- 1.50 The Government's proposal for news consortia could create an important platform for the future development of local TV services by providing cost synergies which could make it more economically attractive to set up local TV services alongside regional news.
- 1.51 At present, we are engaging with two developments in spectrum planning which will help us determine the options available for the delivery of local TV in future.
- 1.52 First, we are negotiating with our international neighbours to align the upper band of cleared spectrum in the UK's digital dividend with an increasing number of other European countries. We believe that this will encourage the development and take-up of innovative new wireless services, including mobile broadband. Alignment of spectrum gives opportunities for economies of scale in equipment and the potential for users to roam between networks in different countries. However, this will almost

certainly reduce the total amount of interleaved spectrum available, particularly in the south and east of England.

- 1.53 Second, we need to look at the interleaved spectrum that is available alongside the lower band of cleared spectrum in the UK's digital dividend. Since the upper band of spectrum in the digital dividend is especially suitable for mobile broadband, combining the lower band and some of the interleaved spectrum may be the only way to deliver new DTT multiplexes with near-UK coverage that can be received by existing household aerials. This could sharpen the choice between using spectrum for local TV or other services with near UK-wide coverage.
- 1.54 We have already auctioned spectrum licences in Manchester and Cardiff. We may hold further awards ahead of digital switchover in locations where there are already licensed local TV stations. In the meantime, our current plans assume that a band manager with obligations toward programme making and special events (PMSE) will become operational in summer/autumn 2010. Any spectrum not required for PMSE could then also be used for other services, including local TV.
- 1.55 We propose to consult on all the potential uses of this spectrum in due course.

Our radio consultation sets out proposals for reforming regulation of commercial radio and for building on the success of community radio

- 1.56 In July 2009 we published a consultation document setting out proposed changes to the regulation of localness, which could be implemented if Parliament were to pass legislation proposed by Government as part of *Digital Britain (Radio: the implications of Digital Britain for localness regulation)*.
- 1.57 Our research suggests that consumers value the localness provided by local commercial radio. The universal provision of this localness is threatened by the current financial pressures on the sector. In the consultation, we set out proposals for reforming regulation of commercial radio, to allow local radio stations the flexibility to adapt economically to market conditions while maintaining localness.
- 1.58 Our detailed proposals on how localness regulation of commercial radio might be relaxed are made with a three-tier structure as a strategic goal:
- At the UK-wide level, facilitating the creation of new commercial radio stations to create an improved consumer proposition: a wide range of popular and niche services, delivered digitally. This would not only provide greater choice for consumers but also could help drive DAB take-up (as Freeview helped to drive take-up of digital television).
 - At a local level, helping to ensure the survival 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 would cease broadcasting on FM in the 'digital upgrade' proposed in the *Digital Britain Final Report*.)
 - At the smallest scale, building on the success of the not-for-profit community radio sector, but also allowing for the survival of commercial models where these are viable. (The digital upgrade would allow for the creation of additional ultra-local radio services, occupying FM spectrum vacated by those services migrating to DAB.)

1.59 Ofcom also plays a prominent role in developing the community radio sector through its duties to licence community radio stations. Since 2004, over 200 stations have been licensed, with more than 150 currently on air. We will continue to licence new community radio stations where there is available spectrum and interest. In addition, the digital upgrade planned for 2015 will create opportunities for a new tier of ultra local radio stations which will occupy the FM spectrum vacated by those services migrating to DAB.

We have also set out proposals to liberalise the media ownership rules at a local level

1.60 We published our consultation on changes to the media ownership rules in July 2009 and we will publish our recommendation to the Secretary of State in the autumn. The review proposes to make changes to the local media ownership rules in two areas:

- Removing all the local radio service ownership rules and the local and national radio multiplex ownership rules. Removal may improve stations' viability. Research also shows that the majority of consumers are unconcerned about single ownership within local commercial radio; and
- Liberalising the local cross-media ownership rules so that cross-ownership of a major local newspaper, local radio station and Channel 3 licence continues to be restricted, but ownership of two of these media is allowed. Research shows that a majority of adults feel that local cross-media ownership wouldn't matter so long as they had choice from other sources.

1.61 Our consultation sets out the evidence behind these proposals which aim to set a balance between the significant economic changes taking place within local media while continuing to be in the best interests of consumers and citizens.

In the longer term, local and regional media businesses will need to adapt to the internet and find new ways of attracting revenue

1.62 The longer term outlook for the local and regional media sector (and particularly local newspapers) appears to be dependent on the rate of increase in internet penetration and the degree to which local media providers are able to compensate for declines in traditional revenue streams through their digital businesses.

1.63 One scenario would see a version of the current business model surviving, with local and regional media businesses managing to attract greater revenues from their digital operations (for instance, by increasing advertising yields, micro-payments or national classified advertising vehicles). It is looking increasingly likely that new models of charging for news content will emerge, although so far, the yield per digital consumer is much lower than on analogue platforms.

1.64 Other business models may also evolve, however. In the US, some major daily titles have been closing their print operations and adapting to a scaled-back online-only model, relying increasingly on citizen journalists, bloggers and community networks to supplement a smaller core of editorial staff. It is too early to judge whether this is a template for the UK.

Community and ultra-local media online have the potential to deliver value to consumers and citizens, alongside traditional media

- 1.65 Community and ultra-local media online (also called 'hyper-local') are becoming an increasingly important part of the local and regional media ecology, driven by new models of democratic empowerment and participation on the internet. One in five consumers claim to use community websites at least monthly and a third of these say they have increased their use of such websites over the past two years. However awareness and discoverability of these services remain low.
- 1.66 Traditional local media providers see community and ultra-local media as a way of engaging with their consumers at a more local level. Some newspaper groups are using citizen journalists, bloggers and community publishers to provide ultra-local content to localities without their own newspaper, supplementing the efforts of professional journalists.
- 1.67 The not-for-profit local TV sector could also evolve on the lines of community radio, as new spectrum suitable for DTT is released. A small number of dedicated not-for-profit local TV and local video services are currently available around the UK. Delivery of local video via broadband is a particularly efficient distribution mechanism, although so far no service has been able to deliver significant reach and impact at a local level.

Other industry stakeholders have set out a range of views on the measures needed to ensure the future of local and regional media

- 1.68 A number of solutions to the issues faced by the UK's local and regional media sector have also been proposed by industry stakeholders, including journalists, academics, politicians and local media owners.
- 1.69 DSO will release significant amounts of spectrum. There are various stakeholder views on how some could be used to stimulate the local media sector, including reserving and/or gifting it for the delivery of local television. Others have suggested that a single video stream could be reserved to support a nationwide local TV channel on the digital terrestrial (DTT) platform (the Channel 6 proposal).
- 1.70 Different models of ownership could play an important role in delivering public purposes in the future. In an uncertain economic environment, new models of ownership may have a bigger role to play in enabling newspaper owners and other interested parties to continue trading while delivering social aims (for instance, serving local communities or holding local public bodies to account). Examples include charitable and non-charitable trusts and community interest companies (CICs).
- 1.71 While local and regional media in some major markets, such as the US has largely been left to the market, some countries, for example France and Sweden have supported elements of the local and regional media through public subsidy in order to guarantee continued provision of public service objectives. Some stakeholders have argued that funding could potentially come from part of a television or radio licence fee or through direct taxation.
- 1.72 Tax breaks have also been put forward by some as a way of funding local journalism, either through application to industry training programmes or to offset investment in new technology.

- 1.73 The Government has set out proposals for a review of the impact on local newspapers of the role of local authority publications, although it is currently unclear which body will undertake this review. Others have argued that the Government and local public bodies could play a more proactive role in ensuring that local media continue to benefit from recruitment advertising and other marketing initiatives.
- 1.74 Finally, it is recognised by many stakeholders that the BBC and Channel 4 could deliver significant value to the sector through partnerships with a range of local and regional media organisations, both commercial and not-for-profit. However many commercial local media providers are concerned about the BBC's potential market impact.

Ofcom will work within its regulatory remit to help sustain a healthy and vibrant local media sector in the future

- 1.75 As noted above, Ofcom has already put out to consultation recommendations to Government to liberalise the local media ownership rules, and separately, to reform the regulation of local radio.
- 1.76 In addition, we are responding to the Government's consultation on news in the nations, locally and in the regions. This is published alongside this report.
- 1.77 Regarding media mergers, in addition to providing general advice to the OFT about markets in which we have particular knowledge or insight, we note the OFT's revised guidelines for media mergers which include a new Local Media Assessment. This will be conducted by Ofcom, in cases relating to local media mergers involving one or more local or regional newspapers which raise prima facie competition concerns.
- 1.78 Our intention is that our ongoing work in relation to local and regional media will help sustain plurality in local and regional TV and radio news, offer new opportunities for partnerships between local newspapers and other organisations, including the BBC, and create new commercial and community options for localness in television, radio and on the internet.

Section 2

Introduction and background

Introduction

- 2.1 Building on our previous work, in particular our Second PSB Review⁹ where we, among others, considered future models of public service broadcasting in the Nations, English regions and the localities, this document brings together a range of research and analysis that Ofcom has conducted, relating to local and regional media. It provides an evidence base for a number of workstreams with strong local and regional elements that are within Ofcom's remit, such as regional television news, local radio, community radio and local television, (including the award of spectrum as it becomes available). It also examines the impact of changes taking place in the wider local media ecology, such as local journalism, local and regional press, and the internet.
- 2.2 Our range of duties, some of which relate directly or indirectly to the local and regional media sector (for example, those relating to public service television broadcasting and radio broadcasting, those related to the media ownership rules and media mergers, as well as those relating to the optimal use of spectrum including for DTT services), mean that we need to understand the issues affecting local and regional journalism. Such journalism is delivered on a wide range of platforms, including local and regional newspapers, local radio, regional television, some local television, and the internet. In order to understand the local and regional media ecology as whole, we believe that we need to consider all of these platforms, even if some, such as newspapers and the internet, are not regulated by Ofcom.
- 2.3 In addition, the boundaries between platform and content types are becoming increasingly blurred as a result of the increasing structural and digital convergence of media: structural convergence, whereby media companies own different kinds of media (e.g. television and radio stations and newspapers) in the same markets, and digital convergence, whereby media content produced in a universal computer language can easily be adapted for use in any medium. In the future, a strong platform for cross-media local and regional journalism may also be created through independently funded news consortia, which the Government has proposed in its *Digital Britain Final Report*¹⁰, and which would take over the provision of regional television news outside the BBC.
- 2.4 Some of the work in this report has arisen out of Government's proposals in its recent Digital Britain Final Report¹¹.
- A review of the regulatory framework for local commercial radio, proposals for which we are currently consulting on in a separate document¹²

⁹ Ofcom (2009) *Ofcom's Second Public Service Broadcasting Review: Putting Viewers First* [Internet]. London. Available from: Ofcom
http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/psb2statement.pdf [Accessed 19 August 2009]

¹⁰ Department for Culture, Media and Sport (2009) *Digital Britain: The Final Report* [Internet]. London, TSO. Available from: Department for Culture, Media and Sport
http://www.culture.gov.uk/what_we_do/broadcasting/6216.aspx [Accessed 19 August 2009]

¹¹ Department for Culture, Media and Sport (2009) *Digital Britain: The Final Report* [Internet]. London, TSO. Available from: Department for Culture, Media and Sport
http://www.culture.gov.uk/what_we_do/broadcasting/6216.aspx [Accessed 19 August 2009]

- A review of the media ownership rules, proposals for which we have consulted on in a separate document ; we are currently considering the responses to the consultation and will make our recommendations to the Secretary of State by 13 November 2009
- Working with the OFT to establish the process for any Local Media Assessment (“LMA”)¹³ which Ofcom may have to conduct in future in the context of local media mergers involving one or more local or regional newspapers which raise prima facie competition concerns
- Responding to the DCMS Consultation on sustainable, independent and impartial news in the Nations, locally and in the regions; we are publishing our response alongside this document¹⁴.

In addition to our analysis we have engaged with stakeholders carrying out their own work into issues surrounding local and regional media

2.5 This document sits alongside work being carried out into issues around local and regional media outside Ofcom, in particular:

- The Government's Digital Britain programme ,which in the Government's Digital Britain Final Report made recommendations in a range of areas affecting local and regional media, including outlining further work on regional television news, a discussion on local television, and making recommendations on, the media merger regime, giving Ofcom a role in conducting LMAs
- The Commons Select Committee for Culture Media and Sport's investigation into local media (for which Ofcom has provided evidence);
- The DCMS consultation on sustainable independent and impartial news in the nations, locally and in the regions¹⁵
- The Conservative Party review of creative industries (including the survival of local media), chaired by Greg Dyke

2.6 Where appropriate, we have engaged with the above processes and other stakeholders who are carrying out work in relation to local and regional media. We believe that this engagement informs our understanding of the wider regional and local media environment which helps us in effectively carrying out our duties.

¹² Ofcom (2009) *Radio: the implications of Digital Britain for localness* regulation [Internet] London Available from: Ofcom <http://www.ofcom.org.uk/consult/condocs/radio/condoc.pdf> [Accessed 19 August 2009]

¹³ Office of Fair Trading (OFT) (2009) *Review of the local and regional media merger regime Final Report* [Internet] London Available from: OFT http://www.ofcom.gov.uk/shared_ofcom/mergers_ea02/oft1091.pdf [Accessed 19 August 2009]

¹⁴ Ofcom (2009) *Sustainable independent and impartial news; in the Nations, locally and in the regions: Ofcom's public response to the DCMS Consultation* [Internet] Available from: Ofcom <http://www.ofcom.org.uk/consult/ofcomresponses/dcms.pdf>

¹⁵ Department for Culture, Media and Sport (2009) *Sustainable independent and impartial news; in the Nations, locally and in the regions* [Internet]. London, TSO. Available from: Department for Culture, Media and Sport < http://www.dcms.gov.uk/images/consultations/cons_sustainableindependentnews.pdf [Accessed 19 August 2009]

Any analysis of broadcast local and regional media also needs to consider the wider local and regional media ecology

- 2.7 Given the role that local and regional newspapers play in the wider media ecology, and in particular their potential future involvement in the delivery of regional and local TV news, we believe that it is necessary to discuss the role and status of local and regional newspapers in the context of this report.
- 2.8 However, we do not have duties to regulate newspapers. This role is carried out by the Press Complaints Commission (“PCC”). The Commission enforces the Code of Practice, which member publications of the PCC agree to uphold. The Code of Practice covers a range of matters, including the accuracy of reporting, fairness and privacy, and the reporting of crime and stories which involve children. Further information on the PCC is available at www.pcc.org.uk.
- 2.9 We have also considered online local and regional media. In some cases such content is provided by existing providers, for example television, radio or newspaper companies with an established online presence. In other cases, this is provided by purely online companies. Online media also includes content created by community groups or individuals, particular with regards to ultra-local content.

Our statutory duties

- 2.10 We are conducting this work about the local and regional media sector in the UK on the basis of our statutory duties.
- 2.11 As the United Kingdom’s independent regulator for the communications sector, Ofcom’s principal duty, set out in section 3(1) of the Communications Act 2003 (the “Act”), is:
- To further the interests of citizens in relation to communications matters; and
 - To further the interests of consumers in relevant markets, where appropriate by promoting competition.
- 2.12 In light of these duties, Ofcom is required to secure a number of things, some of which are particularly relevant in the present context:
- The optimal use for wireless telegraphy of the electro-magnetic spectrum
 - The availability throughout the United Kingdom of a wide range of television and radio services of high quality and wide appeal
 - The maintenance of a sufficient plurality of providers of different television and radio services
- 2.13 Ofcom must also, among others, have regard to the following things, if relevant:
- The desirability of promoting the fulfilment of the purposes of public service television broadcasting (which includes regional news coverage)
 - The desirability of promoting competition in relevant markets
 - The different needs and interests, so far as the use of spectrum is concerned, of all persons who may wish to make use of it

- The opinions of consumers in relevant markets and of members of the public generally
 - The different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the UK and of persons living in rural and in urban areas
- 2.14 We also have duties specific to radio broadcasting, which include licensing national, local, and community analogue radio stations and maintaining a range and diversity of local stations broadcasting local material.
- 2.15 Our duties relating to spectrum include considering whether and how spectrum should be made available for digital terrestrial television services. In performing those duties, Ofcom must, among other things, have regard to the different needs and interests of everyone who may wish to use the spectrum.
- 2.16 Ofcom aims to take a strategic and evidence-based approach to regulation. In performing our principal duties, we must in all cases have regard to the principles of transparency, accountability, proportionality and consistency, as well as ensuring that our actions are targeted only at cases where action is needed.
- 2.17 An overview of our statutory duties for this document is set out at Annex 1.

The concept of ‘localness’ is complex and differs between individuals and contexts

- 2.18 As we have previously noted in our Digital Local¹⁶ report, in our Second PSB Review, definitions of what is meant by ‘local’ vary. For example, some may define ‘local’ as their street or neighbourhood, while for others ‘local’ is their village or town. In addition ‘regions’ vary as well, as Channel 3 or BBC news regions may differ from regions defined by Government under a specific Regional Development Agency. As a result there is sometimes debate about what is ‘local’ or ‘regional’ media.
- 2.19 For this report we have taken local and regional media to be media that is targeted at a specific geographic community at the sub-UK and sub-nations level. Other forms of media exist which are targeted at specific communities of interest. However, given that the UK’s democracy is based on geographic representation at both the UK and nations levels (constituencies) and through local authorities (which operate within defined geographic limits), membership and participation of sub-UK geographic communities is intrinsically linked with notions of citizenship.
- 2.20 This link between geography and citizen participation suggests that local and regional media play an important role by informing the geographic community. As a result there are a range of specific policy interventions at the regional and local level which are intended to promote the citizen interest.
- 2.21 While the PSB purposes and characteristics apply only to television, local and regional media as a whole plays a role in underpinning local democracy and empowering democratic participation. Convergence and new ways of creating content mean that as boundaries between platforms and content types become

¹⁶ Ofcom (2006) *Digital Local: Options for the future of local video content and interactive services* [Internet] London
Available from: Ofcom http://www.ofcom.org.uk/tv/psb_review/digital_local/digital_local.pdf

increasingly blurred, questions start to be asked about the nature and future of public service content.

But wider trends in society suggest a changing role and an increased emphasis on local and regional media

- 2.22 Recent trends in public administration in the UK have been towards increased levels of decision-making and responsibility at the devolved nations and the local levels. This includes an increased role for local authorities and other local public bodies (such as health trusts and schools) in making decisions about governance, taxation and the production and delivery of public services. An example of this is that in July 2009, the Government published a consultation *Strengthening Local Democracy*¹⁷, which contained proposals for increasing the role and powers of local authorities in England.
- 2.23 In addition to changes where decisions are being taken about public services, much has been written about changes in the role played by the state, individuals, professionals and the voluntary sector in the way public services are being produced and consumed.
- 2.24 Given this greater emphasis on the local and regional news and information for the nations, regions and localities may become increasingly important due to:
- The increasing prominence of the decisions being made at the local level and hence increased importance of the ability to scrutinise the decision makers
 - The increasing role of the individual to make their own informed decisions about the consumption of public services which are increasingly being provided at the local level

Changes in technology and business models are also creating new ways to enhance localness

- 2.25 Changes in business models and technologies may enable smaller geographic areas and audiences to be targeted than may be the case currently. For example:
- The release of spectrum at digital switchover may, for example, enable greater granularity in TV services than currently available with existing regional television services (whose regions historically arose from 1950s transmitter footprints rather than definitions of communities based around social or political factors)
 - The Government's proposals for digital upgrade in radio may enable the launch of radio stations focused on smaller geographic areas to broadcast and offer a greater degree of 'localness'
 - The creation of location based applications which can help consumers with the discovery of news, information and services in their immediate area
 - The economics of online content creation and distribution may enable smaller audiences to be targeted more viably via 'ultra-local' websites

¹⁷ Department of Communities and Local Government (2009) *Strengthening Local Democracy* [Internet] London Available from: Department of Communities and Local Government <http://www.communities.gov.uk/documents/localgovernment/pdf/1290537.pdf> [Accessed 19 August 2009]

- 2.26 While these changes may increase the range of services available to consumers, they may also impact the value of local content to citizens given wider political and social trends. In the light of these technical, economic, political and social changes, this report outlines potential challenges that local and regional media faces in delivering public value for citizens and discusses ways in which the sector could be supported in promoting public value for citizens.

The structure of this document

- 2.27 This document draws together the various strands of work we have been carrying out in relation to local and regional media and places them in a wider context. Where relevant, we have referred to evidence presented in other documents, such as the media ownership rules review and the radio localness regulation consultation documents, as these contain more detailed information that specifically relate to those areas.
- 2.28 In the following section (**Section 3**) we introduce the UK's complex and diverse local and regional media landscape. This provides context and background for the discussions that follow in the rest of the document and places the sectors we regulate within a wider context.
- 2.29 Consumers value local and regional media, including regional TV news. In **Section 4** we examine consumer uses and attitudes towards local and regional media, highlighting and explaining the findings of our qualitative and quantitative consumer research which we commissioned in the first half of 2009.
- 2.30 We discuss the economics of the local and regional media sector in the UK in **Section 5**. Where possible we have attempted to take a comparative approach and focussed on the sectors as a whole, rather than discuss any one company or service/title in detail. For the avoidance of doubt, this analysis should not be regarded as any indication of the approach to, or conclusion of, any local media assessment (LMA), which will be based on the individual facts of each case.
- 2.31 Journalism is at the heart of local and regional news across all media, including local and regional radio and television. In **Section 6** we discuss trends in local and regional journalism and the citizen value created by the role it plays in helping to hold local institutions to account. In the course of our work we met with a range of stakeholders, and where appropriate, we have noted some of their comments they have made to us.
- 2.32 In **Section 7**, we discuss future opportunities for non-BBC local and regional news on television. Subject to consultation, the Government is minded to trial Independently Funded News Consortia (IFNCs) as a possible mechanism to deliver an alternative regional television news service to that provided by the BBC. In this document we provide details as to how an IFNC model might operate and the type of content it would deliver.
- 2.33 In **Section 8** we provide background to local TV in the UK. We update on work that has been carried out in relation to local TV, and discuss some of the options that stakeholders have suggested for taking local TV forward, including the role that IFNCs might potentially play.
- 2.34 Radio is a key part of the local and regional media landscape, valued by consumers for its immediacy. **Section 9** includes a summary of our proposals on which we are

consulting in relation to localness regulation. We also discuss opportunities for community radio.

- 2.35 We conclude in **Section 10** by noting some of the wider debates that have been taking place in relation to the future of local and regional media, including the emergence of new business models, new ways of monetising local and regional content, the changing roles of role of user generated content and community media.

Section 3

The local and regional media landscape

Introduction

- 3.1 This section provides an overview of the local and regional media landscape in the UK, including nations services where appropriate

The key points covered in this section are:

- Concepts of 'localness' are complex and vary between individuals and contexts – there is no single definition of 'local' or 'regional'
- There are a large number of players in the local and regional media landscape, with a wide range of business models and ownership structures, operating across a range of platforms
- Regional television news provided by the BBC and Channel 3 (ITV, STV, UTV and Channel) provide regional (and nations) news to a wide audience across the UK
- There has been a trend away from commercial local and regional radio station listening, and the sector has seen consolidation
- The local and regional press sector has experienced a long-term downward trend in circulation, with some consolidation and title swaps
- Community media, including community radio, are established across a range of platforms in the UK, but remain relatively niche

Complex, heterogeneous and increasingly online

- 3.2 As we have previously noted, for example in our *Digital Local*¹⁸ report, it is difficult to provide a definitive definition of what is meant by 'local' and 'regional' as this can mean different things in different contexts, may be restricted either to geographic communities, and may include notions of other forms of community.
- 3.3 Consumer research suggests that, in general, consumers find it easy to distinguish between the concepts of 'national' (as in the UK context) and 'regional', but there are differences in how people classify different levels of localness. Our research suggests that this varies both by geography and (significantly) between individuals; there is no single or simple definition of what is meant by local, although the research suggests that over half considered their own village, town or city as being 'local'.
- 3.4 It is possible to consider 'localness' as a geographic continuum – although the boundaries between these levels of localness are blurred and differ between

¹⁸ Ofcom (2006) *Digital Local*

individual media. The following classifications are proposed, but cannot be regarded as definitive.

Figure 1: Summary of local and regional media



- Ultra-local – The individual's immediate geographic community
- Local – The individual's city, town or local district
- Regional – This level of localness may be associated with either metropolitan, the county or broader geographic area e.g. East Anglia / West Midlands.
- National – This level of localness is particularly associated with the devolved nations i.e. Scotland, Wales and Northern Ireland, particularly due to their strong sense of cultural identity and devolution at the national level
- UK – This refers to the UK as a whole

3.5 Boundaries between 'regional', 'local' and 'ultra' (or 'hyper')-local are blurred. For example, the coverage areas of stations licensed as 'local' commercial radio stations can serve populations of several million, while some small local commercial stations in Scotland reach only a few thousand.

3.6 Likewise, in the press, the geographic coverage areas of newspapers can vary from daily newspapers such as The Scotsman or the Manchester Evening News, to weekly newspapers with content tightly focused on individual medium-sized towns, to 'ultra-local' printed sheets, based on user-generated content.

3.7 Although better classified as 'regional' rather than 'local' media, the BBC television and Channel 3 services provide news at the sub-UK level, and consumers may use these regional news services to obtain some television news content about their 'local area'. However, other parts of the bulletin may be seen as less relevant, given

the size of the geographic area covered. In addition, services that are primarily regional in nature may have more localised opt-outs ('opts'), in which a segment of the main service is replaced with more localised content.

- 3.8 There is little sub-regional (i.e. 'local') television in the UK, and these services are typically focused on a large town or city such as York or Belfast, although Channel M broadcasts to a significant proportion of the Greater Manchester area.
- 3.9 Despite the difficulties in defining localness, a common theme is that local content and services relate to a specific geographic area, rather than being of general interest or utility to the wider population, although local content and services may be consumed by individuals outside the geographic area to which the content and services relate.

The local and regional media ecology

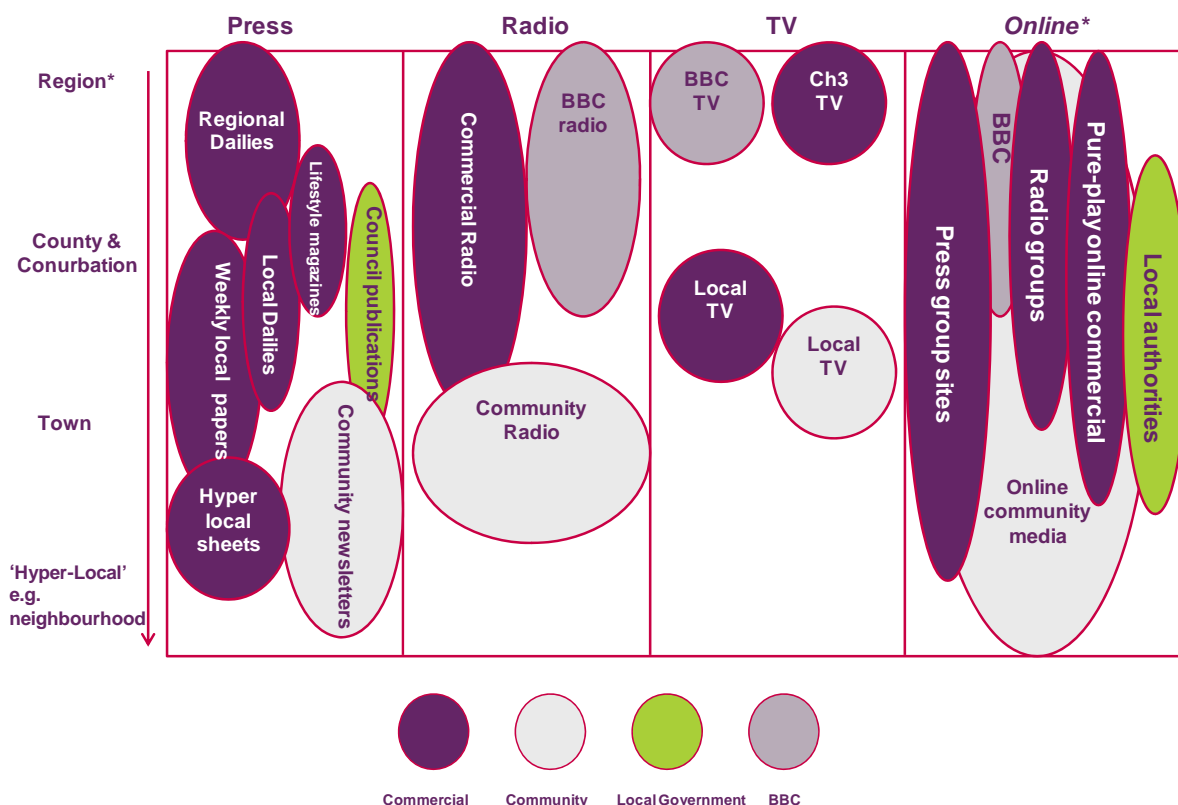
- 3.10 The UK's local and regional media sector is a mixed ecology which includes approximately 1300 regional and local newspaper titles, over 350 BBC, commercial and community-based local radio stations, regional television news bulletins delivered both by publicly-funded and by commercial providers, a small local television sector and a range of local commercial, public and community-based media.

Figure 2: Summary of local and regional media

| Type of media | Number of services / publications | Examples of operators/ comment |
|-------------------------------|---|--|
| Local and regional newspapers | c.1300 | Trinity Mirror, GMG, Johnston Press Newsquest, Archant, DC Thomson, Alpha Newspaper Group |
| Local commercial radio | 325 stations | Bauer, Global, UTV, GMG Radio, UKRD |
| Channel 3 television | 8 TV bulletins in England plus 2 in Scotland, 1 in Wales and 1 in Northern Ireland. Sub-regional obligations in 6 regions | ITV*, STV, UTV, Channel TV (*ITV Broadcasting Limited, wholly owned by ITV plc) |
| BBC Regional TV news | 12 main programmes plus 3 English opts | BBC also produces news for nations Welsh and Gaelic language services |
| Local TV | 4 RSLs active. Very limited number of cable/satellite only local channels | Mixture of community groups, small firms and GMG (Channel M) |
| BBC Local and Nations Radio | 40 local stations in England – 2 national services in Wales, 2x Scottish national service, 2xNI service | Includes non-English language stations in Wales and Scotland Some opts in Scotland and England |
| Community radio | 150+ stations broadcasting | Run by not-for-profit geographic and non-geographic focused community groups |
| Internet | Diverse range of sites – many thousands operating | Includes wide range of community groups, sites operated by traditional media groups, online only operators and search engines / content aggregators. BBC operates a range of local websites, including coverage of English counties, Northern Ireland and regions within Scotland and Wales. |

- 3.11 A key feature of local media is their heterogeneity, with a large number of players operating in the sector. There are approximately 90 regional and local newspaper providers and over 80 commercial local and regional radio operators, in addition to more than 150 community radio broadcasters. However, few providers operate across more than one platform. The types of organisation delivering local media are also varied and widespread, ranging from public limited companies, private companies, media trusts, local government and the BBC to a range of community groups and individuals.
- 3.12 The local media landscape is also heterogeneous in terms of what is provided at each level of 'localness', with different forms of media being prevalent at different sizes of targeted geographic area. As we already note, these boundaries are blurred and may overlap.

Figure 3: The local and regional media landscape

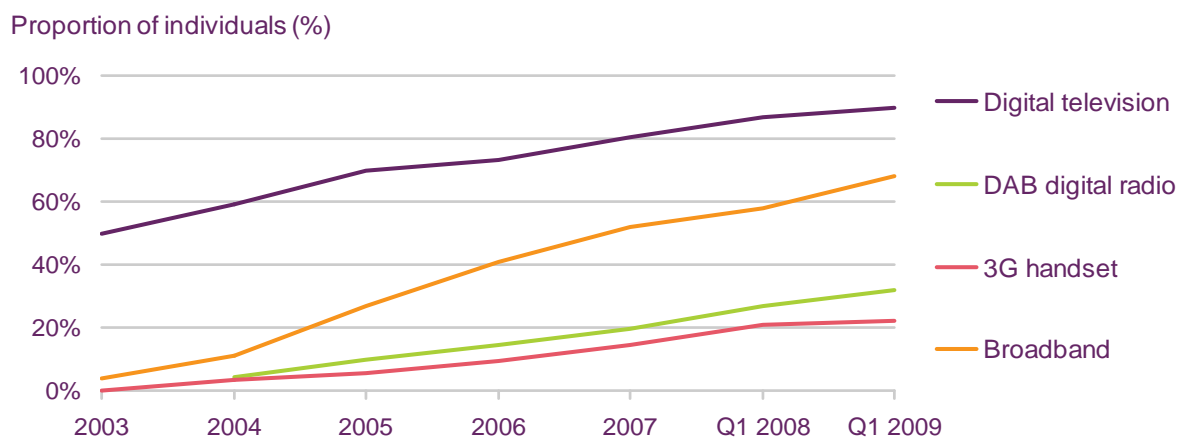


- 3.13 While this section presents a platform-based view of the local media landscape, the growing role played by the internet is likely to mean that in the long term, the local media landscape becomes categorised more by the type of content that is produced and consumed in a given geographic area, rather than how that content is delivered. But at present, the regulation of local media is platform-specific, and as Section 5 shows, consumers use different platforms in different ways, and may associate platforms with content.

Technological change and the local media landscape

3.14 Citizens and consumers are adopting new technologies and services. While they may not be doing this purely in order to consume (and increasingly, create) local media, the increased penetration of these technologies is likely to affect the creation, distribution and consumption of local and regional media. Technologies that have particular relevance to the consumption of local and regional media include digital television, broadband and DAB. Of these, increased broadband penetration has arguably had the most significant impact on the local and regional media landscape, by enabling the consumption and creation of new forms of local content online. The increasing take-up of online services has had significant implications for the creation, consumption and monetisation of local and regional media, leading to structural change in the sector.

Figure 4: Growth in take-up of the main digital platforms, 2003-2009



Source: Ofcom research. Notes: Digital TV data from Digital TV update during Q1 2003, Q1 2004, Q1 2005, Q2 2008, Q1 2009. Stated ownership of 3G handset data from Technology Tracker¹⁹. DAB radio data from RAJAR

3.15 Increasing penetration of DAB digital radios and 3G mobile handsets may lead to further changes in the ways that local media are produced and consumed in the future. The increased penetration of fast, internet-enabled mobile phone handsets may, for example, lead to greater take-up of location-aware local media services, consumed on the move.

Providers in the local and regional media landscape

3.16 It is difficult to determine the exact number of providers in the local and regional media market. In the television and radio sectors operators are licensed, and submit to regulation by Ofcom. In the press, newspapers can sign up to the self-regulatory regime run by the Press Complaints Commission (PCC). There is no need for community groups or online providers to register with any central body (although groups may be members of various associations). The Community Media Association (CMA) represents a range of community media providers.

3.17 Broadcasters and press groups play a major role in the sector. In Figure 5 we show a selection of firms operating in the regional and local media landscape and producing

¹⁹ Most new handsets have 3G capability, therefore these data are more likely to reflect awareness of handset capability than ownership.

local and regional content, and their latest full-year revenues. Most of these firms operate in a primary medium, though all have invested in online services.

Figure 5: Summary of key selected local and regional media organisations

| | Type | Regions & Nations TV | Local TV | Local / Regions / Nations Radio | Local / Regional Press | Online |
|-------------------------------------|-------------|----------------------|----------|---------------------------------|------------------------|--------|
| BBC | Public Corp | ✓ | | ✓ | | ✓ |
| ITV Plc | Plc | ✓ | | | | ✓ |
| STV | Plc | ✓ | | | | ✓ |
| UTV | Plc | ✓ | | ✓ | | ✓ |
| Global Radio | Private | | | ✓ | | ✓ |
| Bauer | Private | | | ✓ | | ✓ |
| Trinity Mirror | Plc | | | | ✓ | ✓ |
| Newsquest (Gannett)** | Subsidiary | | | | ✓ | ✓ |
| Johnston Press | Plc | | | | ✓ | ✓ |
| Northcliffe & Associated (DMGT Plc) | Plc | | | | ✓ | ✓ |
| Guardian Media Group | Private | | ✓ | ✓ | ✓ | ✓ |
| Archant | Private | | | | ✓ | ✓ |

Source: Ofcom analysis

- 3.18 Local media providers include a public corporation (the BBC), a range of publicly listed firms and several privately-held firms. In addition, one of the largest regional and local press groups, Newsquest, is a subsidiary of Gannett, a large US press group. Guardian Media Group is owned by the Scott Trust, whose purpose is to preserve the independence of the Guardian newspaper.
- 3.19 The organisations listed above also differ in the extent to which they derive their revenues from regional/local media, as some groups, like Trinity Mirror, and the Daily Mail and General Trust (DMGT) have significant national media operations. Cross-company comparisons are difficult here, because firms may report their accounts in different ways. It is not possible to separate regional revenues from other revenues for the regional TV providers, given the way that the Channel 3 licensees operate and report revenues.
- 3.20 Consolidation has been a trend among commercial local media players, resulting in the creation of some of the large groups outlined above. For example:

- In television, the regional Channel 3 television licences for England, the Scottish Borders and Wales are now operated by a single company (ITV Broadcasting Limited, which is wholly owned by ITV plc) in England and Wales, following a period of consolidation of licence holders which began in the 1990s.
- In newspapers, the five major local and regional newspaper groups account for over 70% of newspaper circulation.
- In radio, the two largest commercial radio groups now account for approximately 40% of radio services.
- Consolidation has been primarily within a single media platform, although there is some cross-media ownership between regional newspapers and radio (for instance, the Guardian Media Group and Tindle), and between regional television and radio (UTV).

The BBC and local media

- 3.21 The BBC is one of the largest and most distinctive forms of intervention in the local, regional and nations media landscape. It plays a distinctive role, providing 15 regional TV news services to England, and nations TV services to Scotland, Wales and Northern Ireland.
- 3.22 It also provides 46 local and nations radio stations across the UK and in the Channel Islands. The history of BBC local radio dates back to the 1960s, when the Government allowed the BBC to set up local stations, initially as part of a two-year trial, in areas where local authorities agreed to part-fund the services. The first station, BBC Radio Leicester, opened in 1967. By the early 1970s, more stations had opened, the requirement for local authority funding had dropped and the reach of some of the early BBC radio stations, initially covering towns or districts, expanded to cover a county. In 2008-9 the BBC spent £133m on its then 39 local radio stations in the English regions. In 2008-09 the BBC spent £38m in Scotland, £32m in Wales and £18m in Northern Ireland on its nations stations²⁰.
- 3.23 The BBC also operates a range of local websites as part of *bbc.co.uk*. It spent a total of £177m²¹ on its online activities in 2008-09, of which £26m related to online content produced in the nations and regions.
- 3.24 The BBC plays a distinct role in the local media landscape, in several ways:
- Unlike commercial organisations in the local media landscape, it is not reliant on advertising revenues.
 - It operates regional TV and local/regional radio across all parts of the UK, and a series of local websites covering the whole UK.
 - It provides website and nations radio services in Welsh and Gaelic and some programming in Irish and Ulster Scots in the devolved nations, and provides news and certain other programmes in Welsh to S4C, in addition to operating the Gaelic TV service BBC Alba in partnership with MG Alba. It also provides website services in all four languages.

²⁰ BBC Annual Report and Accounts 2008-09

²¹ BBC Annual Report and Accounts 2008-09

- Outside the UK, it provides services to the Crown Dependencies (a website and a local radio station for each of Jersey and Guernsey) and a website for the Isle of Man. In contrast to the Channel Islands, local radio in the Isle of Man is not provided by the BBC but by Manx Radio, which is owned by the Isle of Man government. This is subject to regulation by the Isle of Man communications regulator, the Communications Commission²², rather than Ofcom.
- 3.25 In addition to its role in creating and distributing local content, the BBC is engaging with other media organisations. In 2008, the BBC proposed partnerships with other groups operating in the local media landscape, including ITV for regional news. These involved offering to share studio resources, pictures and video footage.
- 3.26 The BBC also has a range of partnerships with community media organisations in England and the devolved nations. In 2006 the BBC English Regions signed a memorandum of understanding with the Community Media Association.

Other local and regional media organisations

- 3.27 Local and regional media groups include firms operating only in the online space, and directory companies. These directories contain listings of classified and display adverts, but provide no editorial or other form of content.
- 3.28 Public bodies, including local councils, also play a role in the local and regional media landscape. The majority of councils publish and distribute a magazine, newsletter or newspaper to local residents. The frequency and nature of publication varies between areas, with some councils producing council news and information publications on a quarterly basis, and others producing newspapers with a wide range of news, local sports and property sections once every two weeks. Some council publications take advertising and some do not. Public bodies are also active in the online space, publishing information about their services on their websites.
- 3.29 Community media groups / not-for-profit groups are also active in the local media landscape, typically towards the smaller-scale end of 'localness'. The nature of this type of content may mean that it is most suited to being generated by members of the community to which it relates. Community / not-for-profit groups operate across all platforms.

Regional television

- 3.30 Television services provided by the BBC and the Channel 3 licensees provide content focused on a relatively wide geographic area, at the regional (or in the case of the devolved nations) at the nations level, and therefore cannot be said to be strictly *local* media. Two regional TV services are universally available (98.5% population coverage on DTT) and are carried on analogue terrestrial, DTT, satellite, cable and DSL TV. This is in contrast to local TV, which is available in only very few locations (although some stations are on cable as well as on analogue terrestrial TV). Many viewers in Northern Ireland also have access to television services from the Republic of Ireland.
- 3.31 Audiences for regional TV news have varied over time, with both the BBC and Channel 3 regional news audiences falling between 2004 and 2006. Since then, audience numbers have stabilised and made a slight recovery. A consistent trend

²² See <http://www.gov.im/government/boards/cc.xml> for further information on radio broadcast regulation in the Isle of Man

has been the higher audience of the BBC services in comparison to the Channel 3 services – in 2008, the average audience of the BBC evening regional news was 1.9 million higher than the Channel 3 services.

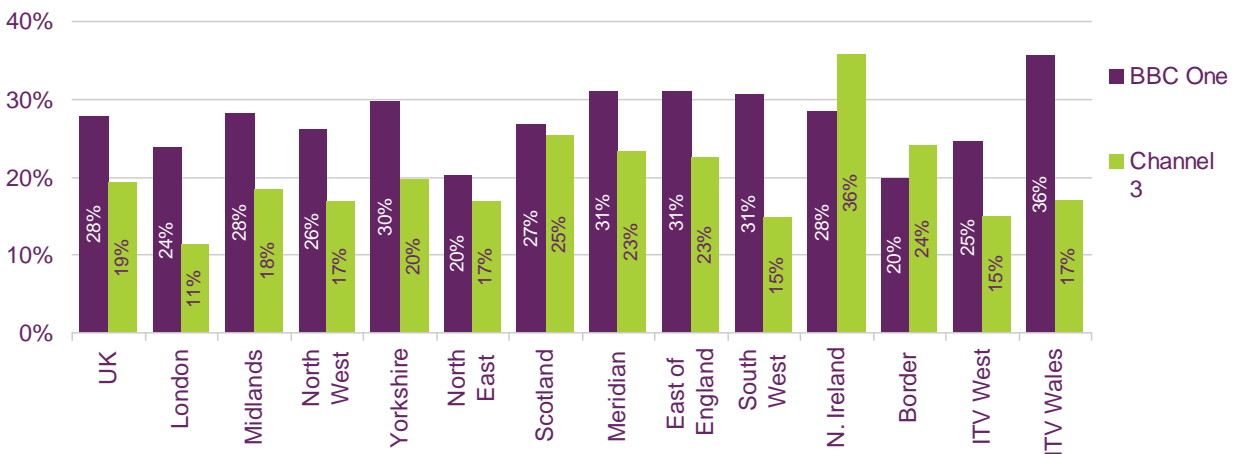
Figure 6: Regional evening news bulletin audiences



Source: BARB, All Individuals (4+), News bulletins; Monday – Friday only; Minimum duration = 15minutes

3.32 The viewing share of regional TV news varies considerably between nations and regions, with London recording the lowest viewing shares for regional news (35%), and Northern Ireland the highest (64%) (Figure 7 below).

Figure 7: Share of viewing, early evening news bulletins, all homes, 2008



Source: BARB

3.33 The existence of regional TV services is the result of regulatory intervention which requires the BBC and the Channel 3 licensees to broadcast at least a specific

amount of regional news and non-news programming as part of their PSB obligations.

- 3.34 The BBC is required to produce 6580 hours of nations and regions programming each year on BBC1 and BBC2. There are no separate quotas for individual nations and regions.
- 3.35 Nations and regions quotas for Channel 3 licences vary by licensee. In some cases, licensees are required to produce a certain quantity of sub-regional news. This gives viewers access to news covering a smaller geographic area than would otherwise be the case, and thereby increases the degree of ‘localness’ in regional TV news. For example, in the south of England, Meridian is required to produce a certain quantity of news content for each of its three sub-regions.

Figure 8: Channel 3 nations and regions quotas, from 2009

| News Service | Provider | Sub-regional obligations | Quotas/Schedules |
|------------------|----------|--|--|
| Border/Tyne Tees | ITV | 15m of main weekday programme split between Border and Tyne Tees. Separate 9m bulletins after News at 10. | Quota for regional news in England is 3.45 (plus 15 mins per week of non-news, which may be included in news programmes) Quota for news in Scotland, Wales and Northern Ireland is 4.00 per week (with additional quotas for non-news) Quota for news in Channel Islands is 3.09 per week (plus 51 mins non-news, which may be included in news programmes) Current broadcast schedule is for bulletins at weekday lunchtime; early evening (30 mins); and post News at 10 PLUS weekend early evening. Quota for non-news in Scotland and Wales is 90 minutes per week. Quota for Northern Ireland is 2 hours per week N.B. Bulletins for GMTV are not subject to quota but are a licence obligation for GMTV |
| Granada | ITV | n/a | |
| Yorkshire | ITV | 6m of main weekday programme split between Yorkshire West and East. Separate 9m bulletins after News at 10. | |
| Wales | ITV | n/a | |
| Central | ITV | 6m of main weekday programme split between Central West and East. Separate 9m bulletins after News at 10. | |
| Anglia | ITV | 6m of main weekday programme split between Anglia West and East. Separate 9m bulletins after News at 10. | |
| Meridian | ITV | 15m of main weekday programme split between Thames Valley/Meridian South and Meridian South East. Separate 9m bulletins after News at 10 | |
| West/Westcountry | ITV | 15m of main weekday programme split between West and Westcountry. Separate 9m bulletins after News at 10. | |
| London | ITN | n/a | |
| Scotland Central | STV | 5m of main weekday programme split between east and west of licensed area | |
| Scotland North | STV | 5m of main weekday programme split between north and south of licensed area | |
| Northern Ireland | UTV | n/a | |
| Channel Islands | Channel | n/a | |

Source: Ofcom

In the above figure, ‘ITV’ refers to Channel 3 licences held by ITV Broadcasting Limited, wholly owned by ITV plc. The Channel 3 London licence is also held by ITV Broadcasting Limited, though its regional news service is provided by ITN.

- 3.36 A feature of regional television news is that provision differs between the English regions and the devolved nations. With the exception of Scotland (which is split between three Channel 3 regions, including one shared with England), provision of sub-UK television news is at the nations level, with the BBC and Channel 3 each having a single news programme for Northern Ireland and Wales, in addition to a single BBC programme for Scotland.
- 3.37 In addition to the services outlined above, S4C provides content in Welsh, including a news service and a range of factual, entertainment, drama, children’s and sports programmes. BBC Alba provides nations TV programming in Gaelic via the digital satellite platform. The service includes news, Scottish sport, music, entertainment and children’s programming. TeleG provides up to one hour a day of content in

Gaelic on DTT in Scotland. While these services are national, they operate at the same level of geographic area as services in English (with the exception of Channel 3 in Scotland). BBC2 also carries some Irish language and Ulster Scots programming in Northern Ireland, and Gaelic language programming in Scotland.

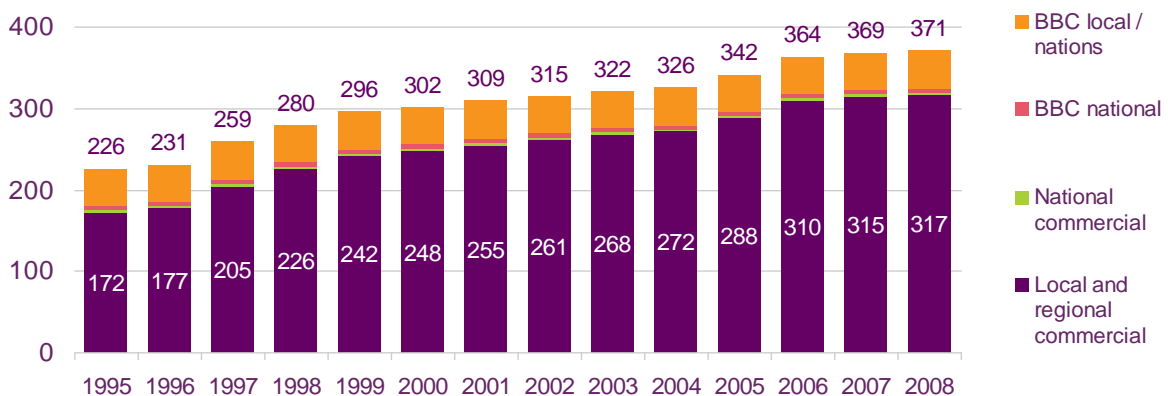
- 3.38 We discuss further in Section 8 the challenges facing commercial regional TV news, and options for securing sustainable plurality in regional TV news.

Local and regional radio

- 3.39 Local radio is an established part of the local media mix. It comprises commercial local stations (of which there are approximately 325 local and regional analogue and digital stations) and 46 BBC nations and local radio stations.

- 3.40 Since commercial radio was first licensed in the UK by the then regulator, the Independent Broadcasting Authority (IBA) in 1973, the structure of commercial radio has been predominantly local. The first stations, launched in 1973, London Broadcasting Company (LBC) and Capital Radio, were aimed at London audiences. And right from the start, LBC was required, as part of its licence, to produce impartial news and syndicate it to other stations. Since 1973 an ongoing programme of radio licensing has resulted in increases in the number of stations, reaching 315 local and regional analogue commercial licences by 2007. A further two local analogue licences were issued in 2008. However, some stations have ceased broadcasting, partly due to the financial pressures the industry is facing.

Figure 9: Numbers of BBC radio stations and commercial station licences issued



Source: Ofcom

- 3.41 The size of radio stations' coverage areas varies considerably. Some of the stations licensed after the original 'heritage' commercial stations are regional stations. Regional stations are not defined by statute, but they typically have large measured coverage areas (MCAs) with large audiences²³. We are currently consulting on proposals to allow regional stations to become national services by dropping their 'regional' (i.e. local) programming and going on the national DAB multiplex²⁴.

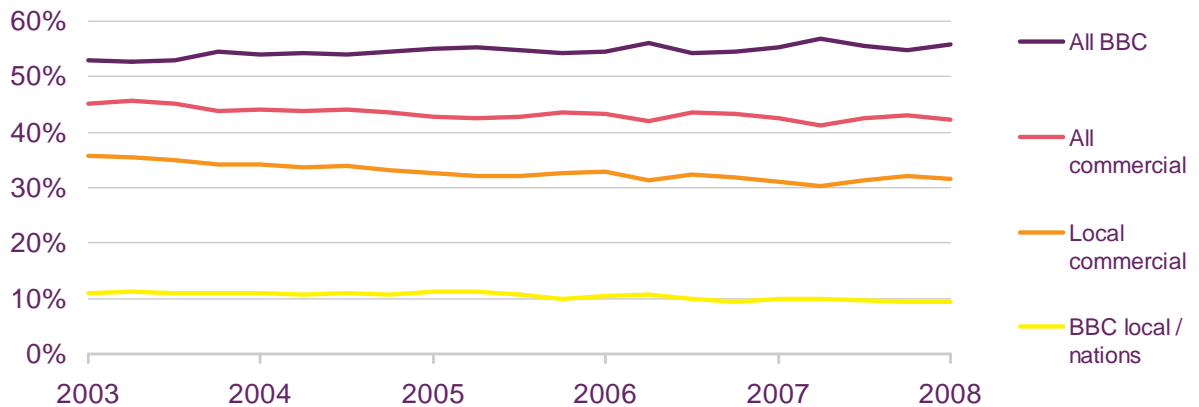
²³ A Measured Coverage Area (MCA) is the area in which transmission signal levels from a station meet exceed a defined threshold for coverage

²⁴ p. 39 Ofcom (2009) *Radio: the implications of Digital Britain for localness regulation* [Internet] London Available from: Ofcom <http://www.ofcom.org.uk/consult/condocs/radio/condoc.pdf> [Accessed 19 August 2009]

3.42 At the other extreme are some very small commercial stations, either tightly focused on a single town, or covering relatively large, sparsely populated, geographic areas. In general, the coverage areas of BBC radio stations lie between these extremes – our case studies show that in many areas, a ‘more local’ commercial radio station than the BBC local radio service is available in the area, although in some cases, BBC local radio stations in England do have ‘opts’ covering particular parts of station coverage areas.

3.43 While there has been a general upward trend in the number of local and regional/nations radio stations broadcasting, the share of listening held by these stations has declined over time, with a slight shift in share of listening towards the BBC’s UK-wide stations.

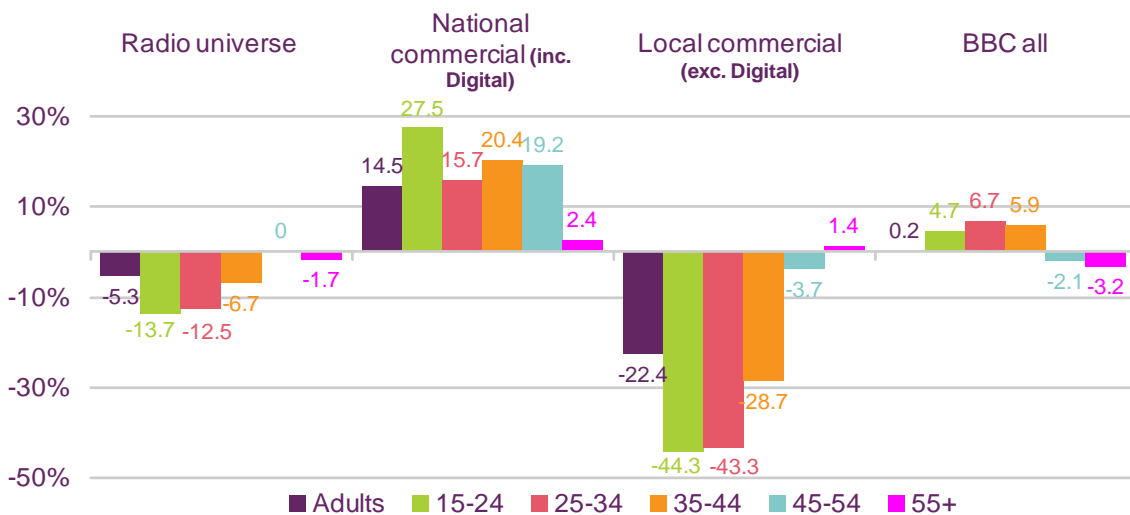
Figure 10: Share of radio listening, 2003-2008



Source: RAJAR

3.44 While there has been a slight decline in local radio’s share of radio listening over time, there have been significant declines in the number of hours of listening to local commercial radio in the five years to 2008, in particular among the under-45 age groups, leading to local commercial radio listening hours underperforming the radio sector in general.

Figure 11: Change in total listening hours, 2003 - 2008



Source: RAJAR, All Adults (15+), Total Hours of listening

3.45 While there has been an overall shift away from local commercial listening, the overall share by group has remained relatively constant, taking M&A activity into account, although taken together, the larger Global Radio entity has a lower share of listening in 2009 (38%) than the two groups had in 2007 (40%).

Providers of local, regional and nations radio

3.46 The BBC operates 40 local radio stations in England and two services for the Channel Islands, plus two stations in Northern Ireland, and one English language station for each of Wales and Scotland. In addition to this, the BBC provides a Welsh language radio service in Wales (BBC Radio Cymru) and a Gaelic service in Scotland (BBC Radio nan Gàidheal). While the BBC services in Scotland and Wales are not ‘local’ in that they cover their entire nations (although there are regional ‘opts’ for news in Scotland), they operate at the same scale as their regional TV news counterparts (but with some regional ‘opts’ in Scotland).

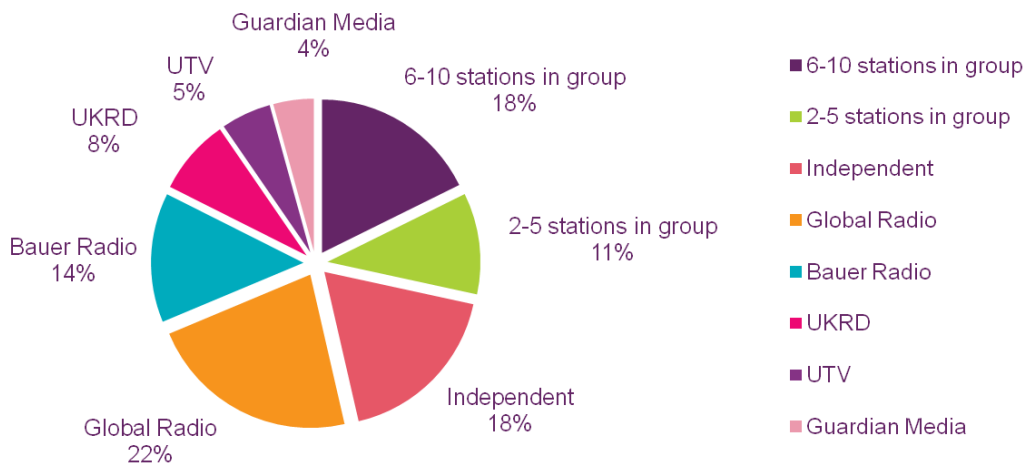
3.47 In Northern Ireland, the BBC operates two radio stations, BBC Radio Ulster, covering the whole of Northern Ireland (based in Belfast), and BBC Radio Foyle.

3.48 In England, BBC local radio services typically cover a county e.g. BBC Radio Suffolk, or several counties e.g. BBC Three Counties (covering Bedfordshire, Buckinghamshire and Hertfordshire).

3.49 BBC local radio stations typically have a relatively high proportion of speech content compared with the commercial sector, and typically employ more journalists to conduct primary newsgathering than their commercial counterparts.

3.50 There are around 80 different commercial radio players in the UK, some of which operate a single station (‘independents’). Others are ‘groups’ which operate at least two stations. The largest groups by number of stations are Global Radio (78 stations) and Bauer Radio (41 stations); there are around 325 commercial analogue or DAB stations in total.

Figure 12: Share of number of analogue licences, by group



Source: Ofcom, July 2009. Note: The percentages are derived from a universe of stations rather than from licences

- 3.51 Consolidation has been an established feature of the local and regional commercial radio sector, with the largest groups being formed as the result of a series of mergers.
- Global Radio was founded in 2007 as a vehicle for the purchase of Chrysalis's radio business. It then acquired the GCap radio group in 2008. GCap was itself a result of a merger in 2005 between two radio groups, GWR and Capital.
 - Bauer Radio was formed as the result of Bauer's acquisition of EMAP Radio, which itself had previously acquired stations; for example, in 2005, it acquired the SRH stations.
 - More recently, in May 2009, UKRD (which has six licences) announced that it had acquired control of the Local Radio Company (TLRC).
- 3.52 Radio groups are seeking to consolidate to take advantage of economies of scale, especially in back office, group overheads and investment in online, and in advertising sales.
- 3.53 The relative strength of radio groups varies across the UK; some smaller groups with fewer than ten stations focus on particular parts of the UK. For example, in Northern Ireland, a Northern Ireland-focused group, Northern Media Group, holds six licences. A high proportion of commercial local radio stations in Scotland are independents.

Local and regional newspapers

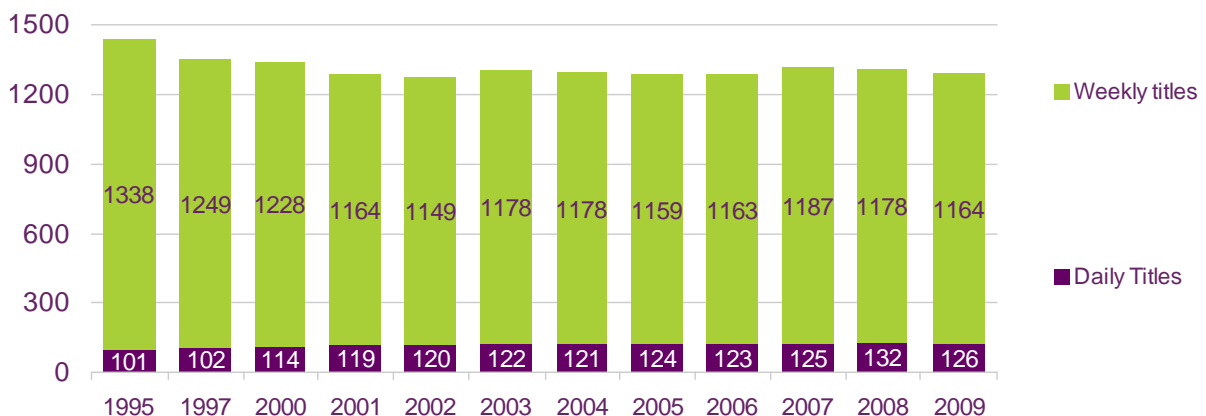
- 3.54 Newspapers are the longest-established of all local media, with roots going back to the eighteenth century. Approximately 1300 titles are published either daily (morning or evening), weekly, on a Sunday or (under some definitions), even fortnightly or monthly. There are approximately four times as many local and regional newspapers as there are commercial local and regional commercial radio services in the UK. In contrast to broadcast local and regional media, the local and regional newspaper sector did not arise as a result of regulatory intervention.
- 3.55 Given the heterogeneity of press, and of the difficulty in defining the boundaries of 'local', we identify 'regional' press as part of the local media mix, which includes titles such as the *Western Mail*, the *Scotsman*, the *Belfast Telegraph* and the *Yorkshire Post*. These regional titles, typically dailies, may circulate in a wide area away from their core base, and may often include regional, UK or international news. In recent years the definition of 'regional' has become more complex, given the launch of nations editions of UK 'national' papers, with an increased emphasis on Scottish, Welsh or Northern Ireland content (especially sport and politics), in addition to UK and international news and features. A key enabler of these editions of UK newspapers has been changes in the economics of newspaper distribution, with printing often being contracted to regional and local newspaper groups in the relevant areas.
- 3.56 The launch of daily, advertising-funded freesheets aimed at commuters (the Metro, a morning daily, launched in London in 1999, and the free evening dailies: *thelondonpaper* and *LondonLite* launched in autumn 2007), has also blurred press distinctions; these titles circulate in defined geographic areas but include substantial international and UK-wide content, in addition to region-specific information, features and classified advertising. In August 2009, News International announced that it intended to cease publishing *thelondonpaper* in September 2009.

- 3.57 In addition to the 'newspapers', some publishers produce local and regional magazines. These typically cover either a county or a town, and are published on a monthly basis. In contrast to newspapers, they often contain content of a more specialist nature, and are not typically news-focused, instead featuring 'softer' lifestyle content such as interviews with local celebrities, and features on fashion, house, food and gardening, within the local or regional area.
- 3.58 The Newspaper Society estimates that there are approximately 450 of these publications. Archant is one of the largest publishers of local/regional magazines, publishing 53 titles. In May 2009, Johnston Press announced an agreement with the Press Association under which the Press Association will provide content for 15 local magazine titles owned by Johnston Press.
- 3.59 At the other end of the scale are local newspapers, typically published on a weekly basis, that have a tight focus on a small geographic area such as a medium-sized town, like those identified in our case study areas. Even smaller are some 'ultra-local' sheets, launched by press groups or small publishers. These ultra-local sheets are often reverse-published online content, with a high proportion of user-generated material, and are often published fortnightly or monthly.

Titles and circulation

- 3.60 The Newspaper Society's website lists 1269 audited regional and local press titles, published at least weekly, as at 1 January 2009. This figure excludes certain other publications and supplements. There has been a general downward trend in the number of titles published over a 10-year period, with 189 weekly titles closing between 1995 and 2002. However, changes in the number of titles should be seen in the context of the overall number of titles, especially advertising-funded free sheets.

Figure 13: Number of regional and local newspaper titles, 1995 - 2009

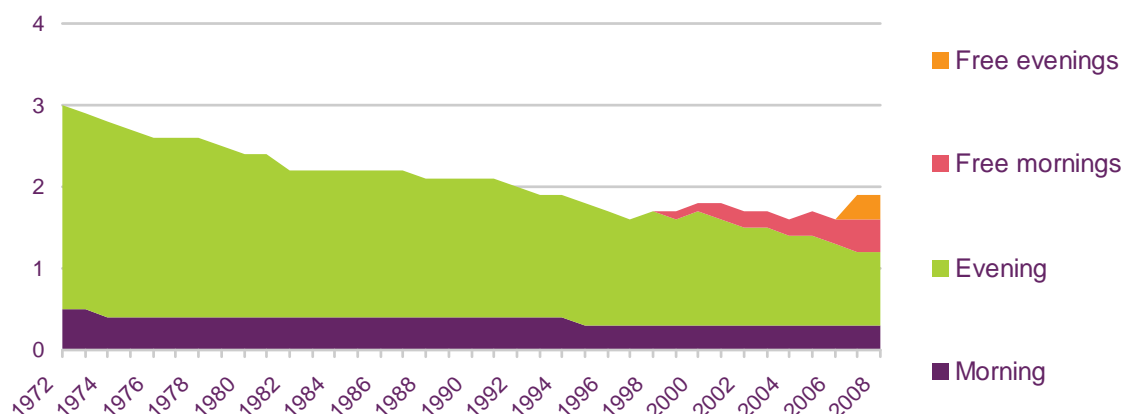


Source: Newspaper Society / Oliver & Ohlbaum analysis

- 3.61 In April 2009, according to the Newspaper Society, the average circulation of daily local titles was 36,149 for evening papers and 57,922 for morning papers. There has been a general long-term trend toward declining circulations for 'regional' (including local) daily newspapers. Since 1972, daily paid-for morning newspaper circulation has declined by around 1.4% a year, with daily evening circulation falling by around 2.9%. This has accelerated rapidly since 2000.

Figure 14: Regional and local daily newspaper circulation

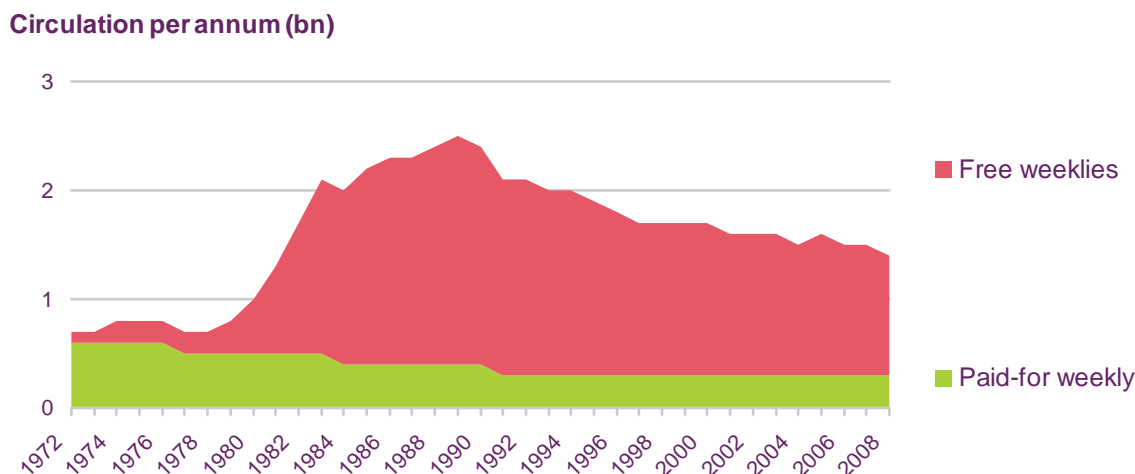
Circulation per annum (bn)



Source: World Advertising Trends WARC (www.warc.com). NB: The basis for calculating these figures was revised in 1997; comparisons with previous years must therefore be made with caution.

- 3.62 The stabilisation of overall daily newspaper circulation since 1999 is due to the entry of the free advertising-funded evening and morning papers, especially those aimed at commuters such as *Metro*. It is also worth noting that some publishers have adopted split paid-for/free models. For example, Guardian Media Group has experimented with distributing the *Manchester Evening News* free of charge in Manchester City Centre, but retaining the paid-for model elsewhere.
- 3.63 A similar long-term decline exists for weekly local and regional newspapers. According to the Newspaper Society, in April 2009, the average circulation by weekly titles was 46,066 for free weeklies, 13,172 for paid-for weeklies and 53,292 for Sundays. Since 1972, paid-for weeklies' circulation has fallen by around 2.1% a year, Sunday papers falling by 2.3%. The sharp increase in total weekly paper circulation in the 1980s was due to the launch of a large number of advertising-funded freesheet titles in a period of strong advertising growth. However circulation of these freesheets has fallen over time.

Figure 15: Trends in weekly local and regional newspaper circulation



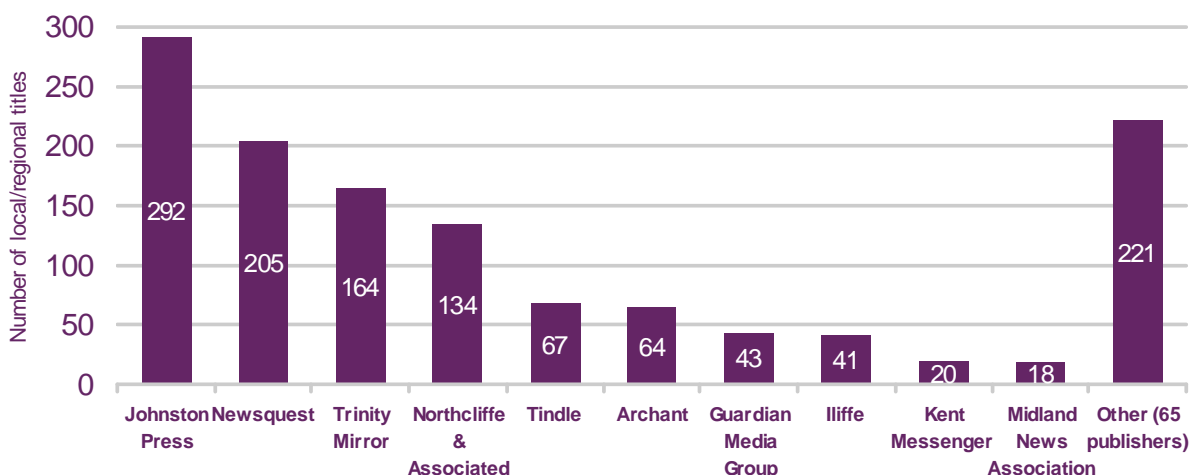
Source: World Advertising Trends WARC (www.warc.com). NB: The basis for calculating these figures was revised in 1997; comparisons with previous years must therefore be made with caution.

Players in the regional and local newspaper sector

3.64 The Newspaper Society figures identify 87 local/regional press publishers at the beginning of 2009. As identified earlier in the section, the number of titles owned by each group and their share of circulation varies considerably, as some groups, like Trinity Mirror, operate throughout the UK, while others, such as the Kent Messenger Group, focus on a relatively small geographic area.

3.65 As Figure 16 demonstrates, the top five groups by total number of titles account for 68% of ownership of titles overall, although the share by overall type differs between groups, depending on their overall focus. For example, while Tindle is fifth in terms of its number of titles overall, it does not publish any daily newspapers.

Figure 16: number of titles owned by major groups at 1 January 2009



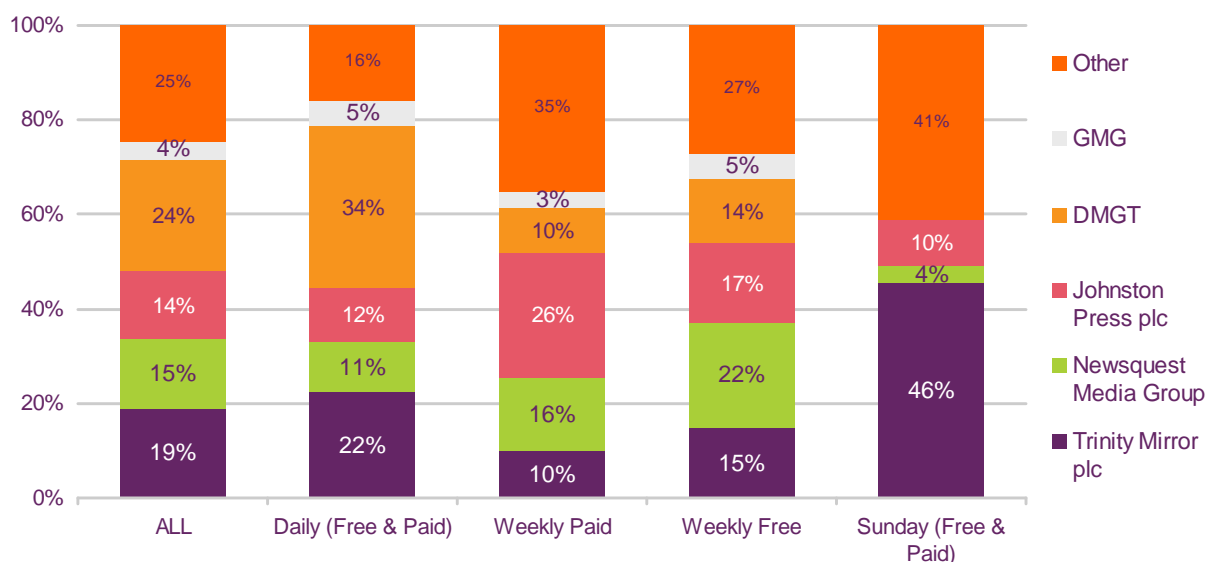
Source: Newspaper Society

3.66 The local and regional newspaper industry has seen a certain amount of merger and acquisition activity over the past few years. Local and regional press groups are

subject to regulation constraining their freedom to merge and to own companies/operate in other local media sectors.

- 3.67 Mergers and acquisitions have occurred at both the group and at the individual title level. In the mid-1990s some large groups left the local and regional newspaper market as a result of sales to other trade buyers, such as the 1996 sale of Pearson’s Westminster Press local and regional newspaper division to Newsquest (itself a product of a management buyout of Reed Elsevier’s regional and local newspaper business in 1995). Trade buyers used these acquisitions to gain scale themselves. In 1999, Trinity and Mirror Group merged their two businesses to create an enlarged national and regional/local press business. Other M&A activity in the sector included US company Gannett’s purchase of Newsquest in 1999.
- 3.68 Activity has also occurred at the title level as groups seek to manage their overall business portfolios. In 2006 Trinity Mirror conducted a strategic review, resulting in the sale of a number of titles to other groups in 2007. Northcliffe acquired three regional news businesses (Kent Regional Newspapers, East Surrey and Sussex Newspapers and Blackmore Vale Publishing) and Tindle acquired 27 weekly titles from Trinity Mirror. In addition, Clyde and Forth Press bought Berkshire Regional Newspapers from Trinity Mirror in 2007. Also in 2007, Johnston Press acquired Archant Scotland, adding it to the Scotsman business, which it acquired in 2006, in addition to acquiring the Belfast-based *News Letter* in 2005, when it acquired Local Press Limited.
- 3.69 More recently, Iliffe acquired a range of titles in the East Midlands/Anglia region from Johnston Press and Trinity Mirror in late 2008 and early 2009.

Figure 17: Share of total local and regional newspaper circulation



Source: Newspaper Society 1 January 2009, Ofcom analysis. Excludes publishers with only free newspapers. Includes London Evening Standard, Daily Record, Sunday Post, Sunday Mail and all regional daily titles

- 3.70 The differences in share of circulation reflect differences in titles. For example, DMGT (owner of Northcliffe and Associated Newspapers) has a 34% share in daily local and regional newspapers, but 24% overall, reflecting ownership of high-circulating daily newspapers, including the London dailies. In contrast, Johnston Press’s business

model is more focused on weekly titles. Other groups active in the weekly newspapers include Archant and Tindle. With its single Sunday title, DC Thomson accounts for 26% of Sunday paid-for and free circulation.

- 3.71 It is important to note that these shares are not geographically uniform, and that the number of titles circulating in an area, and the number of groups with titles in an area, varies considerably between areas. Newspaper circulation areas are not discrete, as in certain cases, newspapers may be consumed outside their core geographic areas by diasporas, while in areas near boundaries, titles from both sides of the boundary may circulate.

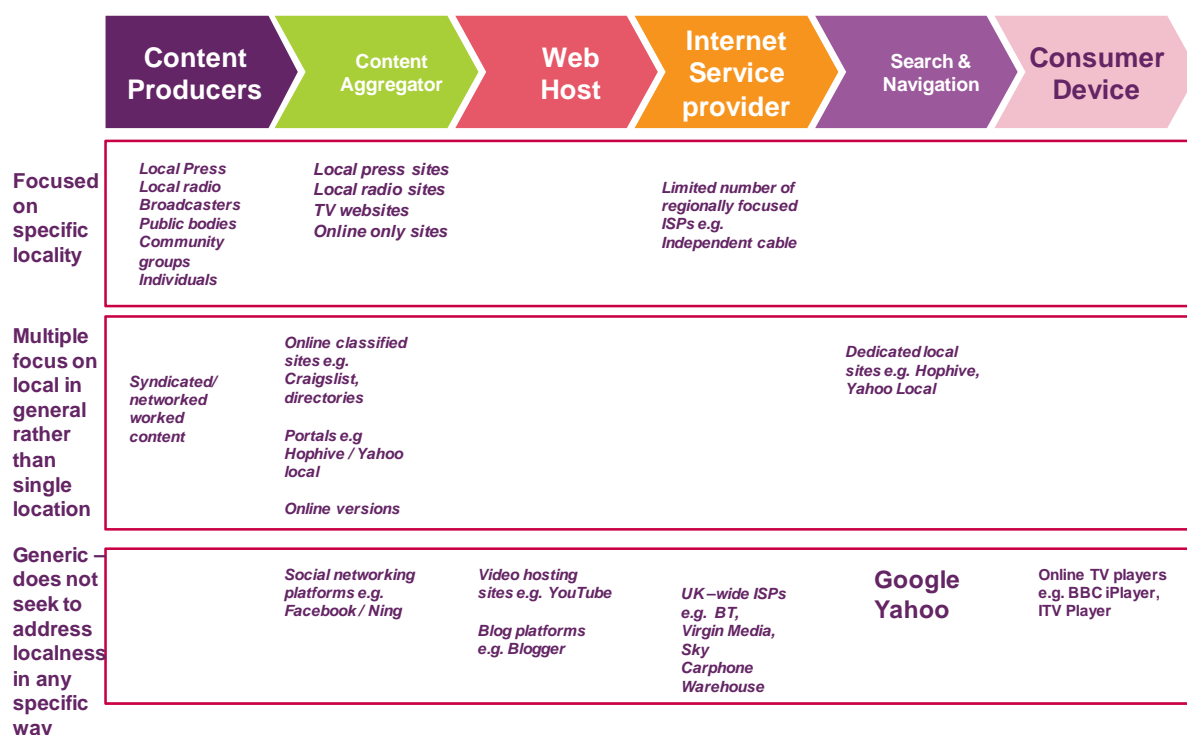
Commercial local television

- 3.72 In contrast to certain other countries, there is little local TV in the UK. Restricted service licences (RSLs) have been made available for terrestrial transmission of local television since the 1996 Broadcasting Act, but only Manchester, Belfast, Leicester and York currently have regular services in operation, of which all except Belfast's operation are run as commercial ventures. The Manchester service, Channel M, owned by Guardian Media Group and available on analogue terrestrial TV and satellite, is currently the largest local TV service operating in the UK. The other commercial local TV services are provided by smaller, privately-held companies.
- 3.73 A commercial terrestrial local TV service, Six TV, operated by the Milestone Group in Oxford, ceased transmission in April 2009. Spectrum suitable for use for local TV on DTT was recently auctioned, and licences awarded in Manchester and Cardiff. The licence in Manchester, acquired by the current RSL holder, Guardian Media Group, will be used to transmit Channel M on DTT in the Greater Manchester area. Channel M is currently available on digital satellite and analogue terrestrial.
- 3.74 Local TV services currently provide a range of programming to geographic areas smaller than those of regional TV. All terrestrial services provide local news in some format. Channel M's content is focused on news, sport and entertainment, in addition to arts programming. Other types of programming typically carried on local TV in the UK, especially by community-focused local TV stations, include documentaries, arts and public information programming.

Commercial online local and regional media

- 3.75 The online local media space is complex and consists of many players, with many types of overlapping services. The online local media value chain includes a range of generic online services that are not specific to local media, but which may have a role in searching, aggregating and hosting local content.

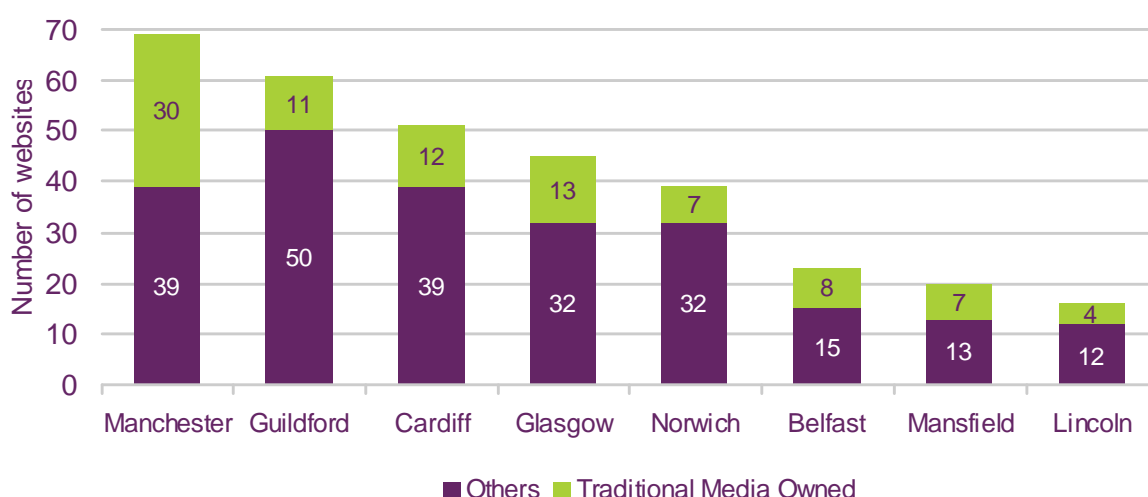
Figure 18: Online local and regional media value chain



Source: Ofcom analysis

3.76 A wide range of parties are involved in the creation of online local and regional content. Analysis for Ofcom of eight case study areas across the UK suggests that, in terms of the websites providing local content in these areas, a minority are from traditional local media outlets; the majority are online only.

Figure 19: Locally-focused websites, by ownership, in case study areas



Source: Oliver & Ohlbaum analysis

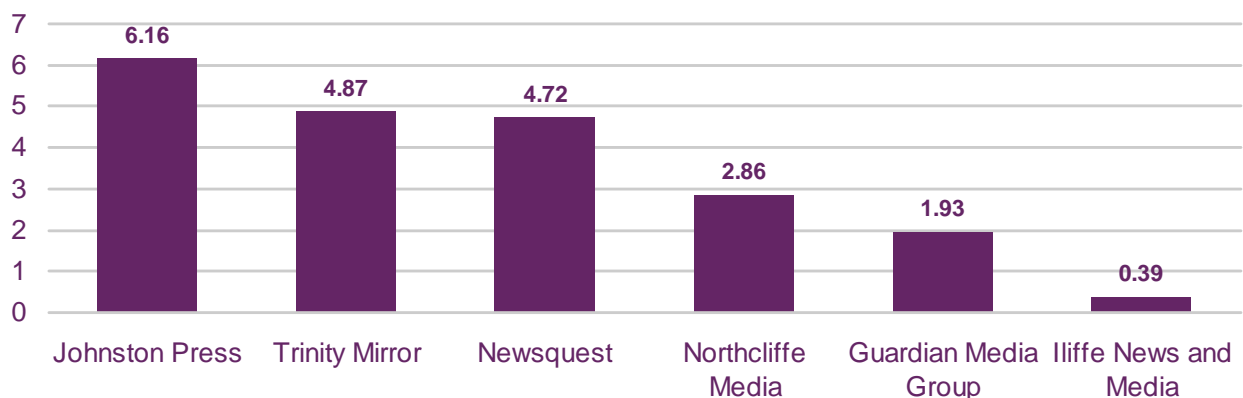
3.77 While online-only operations may account for the majority of locally-focused websites in our case study areas, consumer research suggests that for some types of content, consumers still use established media brands. According to Nielsen Online, the websites of organisations that provide access to local content and services (including

the BBC), were among the sites with the highest unique number of visitors in the UK in June 2009.

Local and regional newspapers online

- 3.78 Local and regional press groups have an established presence on the internet. During the 1999-2001 internet boom they made significant levels of investment in internet-related activities; in addition to putting their (mainly text-based) content online, some invested in their own ISP businesses, and some, seeking to enter the online classified advertising space, formed a joint venture to run the *Fish4* series of classified advertising sites.
- 3.79 Newspaper groups' online strategies have evolved over time, and the Newspaper Society now identifies 1200 local/regional newspaper websites, almost as many as the number of newspaper titles reported on the site. The content carried by newspaper group websites has also evolved; although groups' and titles' strategies vary, local press websites are now carrying increasing amounts of video content. Some sites, for example *newburytoday*²⁵ carry a daily video news programme in addition to integrating video with text- and picture-based content.
- 3.80 In our interviews, some industry stakeholders suggested that they see their online presence as extending the reach of their content to new (usually younger) audiences. Some see their websites as a mechanism to increase circulation, putting material online to encourage consumers to purchase a printed version of the newspaper, in the same way that some freesheets linked to paid titles advertise the paid-for paper. But some have expressed concern that consumers expect website content to be free, so are becoming less willing to buy printed newspapers. These stakeholders are seeking to introduce a subscription model for some of their online local content.
- 3.81 Stakeholders see their brands as critical to attracting traffic to their websites. They see their sites as a mechanism to channel users towards their associated online classified advertising sites, and monetise news and other editorial content on the sites by displaying adverts around the content.

Figure 20: Local and regional newspaper group online unique audience (m) H2 2008



Source: ABC/Guardian.co.uk

- 3.82 Newspaper websites can also help to bridge the gap between regional, local and ultra-local content. For example, Trinity Mirror's portfolio of over 400 websites includes the regional 'ic' portals, providing access to a range of regional and national

²⁵ <http://www.newburytoday.co.uk/> [Accessed 19 August 2009]

news stories, other editorial features, and the group's online classified advertising services. Some websites are linked to individual print titles, some of which have their own ultra-local sub-sites, combining editorial and user-generated content and focusing on a geographic area smaller than the focus of the printed title. Northcliffe (DMGT) has taken a similar approach, operating a network of 150 websites offering local news, information and classified advertising, predominantly under the 'thisis' brand.

- 3.83 Northcliffe uses its portals to provide links to classified advertising websites operated by parent company DMGT, such as *jobsite.com*, *findaproperty.com* and *motors.co.uk*. Northcliffe reports 4 million unique users a month across its overall web portfolio. Trinity Mirror, which reports 5 million unique users a month for its web portfolio, has adopted a similar strategy, operating a range of vertical job websites e.g. *Gaapweb.com* (a specialist website for accountancy vacancies) and horizontal regional job sites. Tindle operates a property classified site: *latesthomes*²⁶
- 3.84 Other local and press groups have invested in online classified advertising. A key player in this space is Guardian Media Group's Trader Media Group business (in which it sold a 49.9% stake to private equity group Apax in 2007). The Trader Media Group publishes both printed and online versions of its classified advertising services.

Online activities of broadcasters

- 3.85 In addition to the BBC, regional TV broadcasters have an established online presence, offering a range of content, including regional news, and the ability to view regional TV programming online. The Channel 3 licensees have adopted different online strategies for the provision of online regional and local content.
- 3.86 ITV plc's ITV Local service, which completed its roll-out in 2007, offered a mixture of news, weather, sport and user-generated content. However, in March 2009, ITV plc announced that the service would close, as it intended to focus resources on its broadcasting and production businesses.
- 3.87 The Channel 3 licensees for Scotland (STV) and Northern Ireland (UTV) continue to offer regional content on their portals²⁷, including local news. In addition to its broadcasting interests, UTV Media operates an ISP and several online classified sites, including a job search website for Northern Ireland (RecruitNI.com). UTV's website offers a range of Northern Ireland-focused content including news, features and events listings. STV's website offers a similar range of Scotland-focused content, including a jobs website, STVjobs. In both cases, regional TV bulletins can be streamed from the websites. Channel Television, the Channel 3 licensee for the Channel Islands, carries a range of Channel Islands-focused content (including news, business news, sport and lifestyle features) on its website²⁸. The S4C website²⁹ includes extensive programme information and the facility to view most of its recently broadcast programmes online, as streamed video, for a period of up to 35 days after transmission.
- 3.88 The majority of radio stations have an online presence. Ninety-three per cent of commercial radio stations stream their content online and 57% produce podcasts or

²⁶ www.latesthomes.co.uk [Accessed 19 August 2009]

²⁷ www.stv.tv, www.u.tv [Accessed 19 August 2009]

²⁸ <http://www.channelonline.tv/channelonline/> [Accessed 19 August 2009]

²⁹ <http://www.s4c.co.uk/> [Accessed 19 August 2009]

non-live audio³⁰. Local news is available on 87% of those websites³¹. Total radio consumption via the internet remains relatively low – in March 2009, the internet accounted for 2.2% of all radio listening³², compared with 2.1% in March 2008. Radio consumption can also be time-shifted, as podcasts.

- 3.89 Radio groups' online strategies vary. Some sites act as portals to a range of local content, including news, sport and features, including user-generated content, while others have a greater focus on the core radio station, providing information and quick links to online listening. Some groups, such as Global, are seeking to use online to diversify; the welovelocal.com local business review service (acquired by GCap in 2008), has been integrated into Global's website portfolio.

Pure-play online services and new business models

- 3.90 There are a wide range of new entrants to the online local and regional media landscape. Some operate platforms for *hosting* content (which may or may not include local content). This is often user-generated content on sites such as *YouTube*, or on blogging platforms that are also part of the local media landscape. Sites that *generate* content vary in scale and scope – some focus on a single geographical area, while others are UK-wide in scope and offer locally-focused content for many areas. Because of this, the notion of 'local' online content is blurred, especially in relation to pure new media websites.
- 3.91 Some established local and regional media groups have acquired what were originally pure-play locally-focused internet businesses. These pure-play online services, which remain independent, typically provide a service across the UK as a whole, rather than focusing on a specific geographic area.
- 3.92 These services include UK-wide specialist 'vertical' websites such as listings services, or classified advertising services. They are 'local' in that the sites offer a geographic search facility enabling users to return results for a specific geographic area. For classified adverts, they are the online equivalents of local directories, and players in this sector include the traditional directory publishers Yell and Thomson. Other websites are operated by specialist new media players; these include *Rightmove*, a property website owned by publicly-traded Rightmove plc³³, which increased its revenues to £74m in 2008. Other vertical sector websites that provide information about local areas include privately-held *Toptable*³⁴, a restaurant review and booking service that covers a range of locations across the UK.
- 3.93 In some cases, local and regional classified advertising providers are international in scale, operating services across multiple countries, in addition to multiple localities within countries. An example of this is *Kijiji*, owned by eBay, which operates local classified advertising websites under a range of brands in North America, Europe, South Africa, Asia and Australia/New Zealand. In the UK, it operates the *Gumtree* sites, which it acquired in 2005. eBay also has a stake in *Craigslist*³⁵, another US-based local classified advertising service which has 27 UK sites, and operates in 570 markets worldwide. *Craigslist* emphasises the community aspect of its service, retaining the .org domain, and does not charge advertisers for most categories of

³⁰ RadioCentre, Action Stations! *The Output and Impact of Commercial Radio*, July 2008.

³¹ RadioCentre, Action Stations! July 2008.

³² http://www.rajar.co.uk/docs/2009_03/2009_Q1_All_Radio_Listening_Charts.pdf [Accessed 19 August 2009]

³³ <http://www.rightmove.co.uk> [Accessed 19 August 2009]

³⁴ <http://www.toptable.com> [Accessed 19 August 2009]

³⁵ <http://www.craigslist.org> [Accessed 19 August 2009]

advertises, apart from property and recruitment. AIM Group estimates that Craigslist revenues will increase by 23% YoY to reach \$100m in 2009.

- 3.94 Another example of a significant online classified player is *Monster.co.uk*³⁶, a classified jobs website operated by US group Monster.inc. In 2008 the group generated revenues of \$1.3bn from operations in approximately 50 countries. The website allows UK job hunters to search by geography.
- 3.95 Other sites are operated by the not-for-profit community media sector and by public bodies, including local councils. Local authorities have launched websites which provide access to information about local council services. Some council websites include non-council-related content from other websites; for example, Oxfordshire's home page includes local weather and traffic news feeds from the BBC³⁷. The review of locally-focused websites in the case study areas also showed that other public bodies, such as tourist boards, were publishing information about the local area to market their area to visitors.

Community and ultra-local media

- 3.96 The community and ultra-local media sector in the UK is diverse and is evolving rapidly. It has the potential to support and broaden the range of local media content available to citizens and consumers, but it faces a number of structural challenges, including funding and visibility.
- 3.97 Community media can be found across all platforms: radio and online broadcasting, TV and audio-visual materials, text-based websites and community print projects. Ultra-local content, in contrast, tends to be more web- or print-focused, as it often targets a much smaller constituency and therefore is not always scalable in the way that radio and TV can be. Many community and ultra-local media providers typically focus on offering services across one platform, with few producers being fully-fledged multi-media and multi-platform operations.

Characteristics of community and ultra-local media in the UK

- 3.98 Definitions of 'community' and 'ultra-local' may vary between platforms and stakeholders. However, it is possible to identify some key characteristics which can often be found across a wide range of community and ultra-local media projects. Our research shows that community and ultra-local media can be found to have some of, if not all, of the following traits:
- More localised – both in terms of geography and types of content - than more mainstream media outlets such as commercial radio, TV regional news, BBC regions or regional and local newspapers. This is sometimes referred to as 'ultra' or 'hyper-local' (the terms are interchangeable)
 - Community media often seeks to fill gaps - geographical, special interest or demographic – unserved or under-served by these mainstream media; for example, providing local content in non-English languages in the nations, and for BME communities.

³⁶ <http://www.monster.co.uk/> [Accessed 19 August 2009]

³⁷ <http://www.oxfordshire.gov.uk> [Accessed 19 August 2009]

- Community media have a diverse range of funding sources, including advertising, subscriptions (and circulation revenues), grants from public and private funding bodies and in-kind funding from volunteers.
- The value and role of community media goes beyond the provision of content, with specific value often seen in the social capital generated by the creation of community media.
- Ultra-local content may be single issue-based, or too small for areas covered by community radio or traditional paid-for print media. Some content in this sphere is specifically designed to hold authorities to account. Examples include Stake's *Pits'n'Pots*³⁸, the *Kings Cross Environment* website,³⁹ and the *Formby First* blog.⁴⁰

Figure 21: Local and regional community media, with examples

| Platform | Type of community media | Examples |
|-----------------|--------------------------------------|---------------------------------------|
| TV | Terrestrial local | Northern Visions NvTv (Belfast) |
| | Cable | Channel 7 (Immingham) |
| | Online only | MonTV (Monmouthshire) |
| Radio | Community radio | BCB FM (Bradford) |
| | Online-only community radio stations | Mansfield Community Radio (Mansfield) |
| Online | Community portal | Harringay Online (London) |
| | Blog | Kings Cross Environment |
| Community Print | Community newspaper | Leys News (Oxford) |

Source: Ofcom analysis

Not-for-profit local TV

- 3.99 A small number of local TV services broadcasting on terrestrial television provide a range of programming to geographic areas smaller than that of regional TV. While the majority of these stations are run on a commercial basis (but may describe themselves as 'community TV' given their localness and links to the community), Northern Visions' *NvTv* service, broadcast in Belfast, is run on a not-for-profit basis and also provides training in content creation.
- 3.100 In addition to this RSL service, broadcasting on terrestrial television, there are a few community cable and online local TV services, including Channel 7, which is run by a not-for profit social enterprise in Immingham, and MONTV, an online community video website in Monmouthshire, Wales.

³⁸ <http://pitsnpots.co.uk/> [Accessed 19 August 2009]

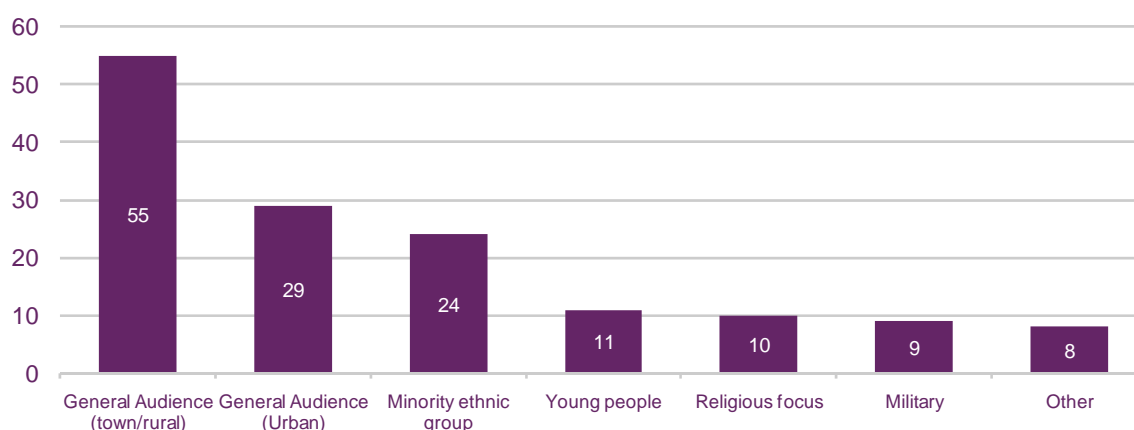
³⁹ <http://www.kingscrossenvironment.com/> [Accessed 19 August 2009]

⁴⁰ <http://formbyfirst.typepad.com/> [Accessed 19 August 2009]

Community radio

- 3.101 Community radio stations are a relatively new type of not-for-profit radio service, intended to operate on a small scale and to deliver social gain to one or more communities – be they geographic or communities of interest. The legislation to enable community radio services to be licensed was introduced in 2004, and the first station launched in November 2005. Ofcom has now licensed more than 200 stations, over 150 of which are currently broadcasting in the UK.
- 3.102 Community radio stations may be established to serve specific geographic communities (a particular town or part of a town), communities of interest (religious, minority ethnic groups, military etc), or a combination of both.

Figure 22: On-air community radio stations, by type



Source: Ofcom, July 2009

- 3.103 Several factors make community radio suitable for providing ultra-local content for general audiences. Firstly, current constraints on spectrum mean that broadcast power outputs must be relatively low, typically limiting the potential broadcast footprint of the station to a radius of around 5 kilometres. Secondly, the nature of community radio, as defined in legislation, makes it accountable to the local community, with whom it must create its output. When applying for licence applicants have to demonstrate how their service will do this, while providing a service focused on the needs of a clearly defined under-served audience, or audiences. These factors ensure that community radio adds to the rich mix of services that the BBC and commercial radio already provide.
- 3.104 Legislation places a limit on the amount of income that can be generated from on-air advertising and sponsorship, and this also helps community radio stations to sound different to their commercial counterparts. For most stations this limit is 50%, although two stations have a lower limit (25% and 10%) and a further 18 stations are not allowed to receive any income of this type. These additional restrictions are to protect very small commercial services which have coverage areas that overlap with the community services.
- 3.105 The legislation governing community radio also requires stations to demonstrate their core aims and commitments in respect to training, access and accountability to the community. One key way in which stations factor in this relationship is through the involvement of volunteers. On average, each community radio station has 74 volunteers who give a combined total of around 214 hours' time a week per station

(just under three hours for each volunteer a week). On average, speech forms around 33% of daytime output, and each station broadcasts around 81 hours of original output a week; most of this output is live and the vast majority is locally produced.⁴¹

- 3.106 As with other community media practitioners, the sector faces a number of challenges. Specific pressures for this sector include:
- Funding, and the work involved in seeking funding (e.g. finding, researching and applying for grants);
 - A lack of full-time staff to organise volunteers effectively (limited funding for staff)
 - Attracting advertising and sponsorship revenues without listening figures
 - Limited coverage, with some stations reporting that their coverage areas are too small and that listeners complain of reception difficulties.
- 3.107 Licensed community radio stations are eligible to apply to the Community Radio Fund, administered by Ofcom on behalf of the DCMS. The size of the fund has not increased since its inception, despite inflation and the increase in the number of stations now in existence. Pressures on community radio include those outlined earlier in this document, which are applicable to the sector as a whole.
- 3.108 In common with other forms of local media, community radio has an online presence. We believe that of the more than 150 stations broadcasting, almost all have a website, nearly 90% stream their output in real time, while approximately 35% make some content available via podcasts.

Online community and ultra-local media

- 3.109 The growth of the internet has provided a range of opportunities for community and ultra-local media to use the online platform as a means to reach audiences and tackle issues that matter to citizens. In many respects this is a direct evolution from the community media of the past, replacing pamphlets, newsletters and other printed materials with online equivalents. Perhaps more than in any other part of the community media sphere, we can learn most from looking at overseas models, particularly the US model.
- 3.110 In the UK, an increasing amount of ultra-local content is being published, but much of it is hard to find, either because it does not attract a lot of traffic, or because it fails to deploy the strategies required to get a high ranking in traditional search engines such as Google. Pages are ranked by algorithms which look at factors including the number of reciprocated links, so without links – which many community sites do not have – it can be very hard to get a high ranking and be discovered by users when they search Google. These two factors can contribute to very small ultra-local sites being hard to find using traditional search technology.
- 3.111 Some websites, however, have been successful, raised their profiles and generate tens of thousands of unique visitors a month. These include the websites for *London*

⁴¹ [Source: http://www.ofcom.org.uk/radio/ifi/rbl/commun_radio/cr_annualrpt/](http://www.ofcom.org.uk/radio/ifi/rbl/commun_radio/cr_annualrpt/)

*SE1*⁴², *Kings Cross Environment*⁴³, *Created in Birmingham*⁴⁴ *Sheffield Forum*⁴⁵, and *the Ventnor Blog*⁴⁶.

Community print

- 3.112 Ultra-local community media outlets are not a new phenomenon; the UK has long had a history of civic activism, with community groups, such as residents' associations and parish councils, publishing newsletters for their members. Such print media are often published for a specific purpose, and are ultra-local in that they are targeted at a relatively small number of people within a small geographic area.
- 3.113 A hybrid form of community print media exists in some local newspapers, which carry columns, or special supplements, written by non-professional citizen journalists. These are typically used to provide ultra-local content; for example, covering individual villages in rural areas.

⁴² <http://www.london-se1.co.uk/> [Accessed 19 August 2009]

⁴³ <http://www.kingscrossenvironment.com> [Accessed 19 August 2009]

⁴⁴ <http://www.createdinbirmingham.com/> [Accessed 19 August 2009]

⁴⁵ <http://www.sheffieldforum.co.uk/> [Accessed 19 August 2009]

⁴⁶ <http://ventnorblog.com/> [Accessed 19 August 2009]

Section 4

The local and regional media consumer

Introduction

- 4.1 This section looks at how consumers are using local media. It explores consumer attitudes towards current provision, in terms of importance and satisfaction. It also covers consumers' opinions on potential future changes in local media provision, such as single ownership within media platforms, and cross-media ownership.

The key points covered in this section are:

- Over 90% of adults use local media and most adults use multiple sources of local media.
- Regional/local TV remains the most regularly-used source of local media and is the main source of local news for around half of all adults.
- Websites are competing with newspapers and radio for some local content.
- Local media are important to people and most tend to be satisfied with them.
- Consumers see regional/local TV and newspapers as being the most important to society.
- Consumers are relatively relaxed about the importance of separate ownership of local media, but value plurality of regional TV news

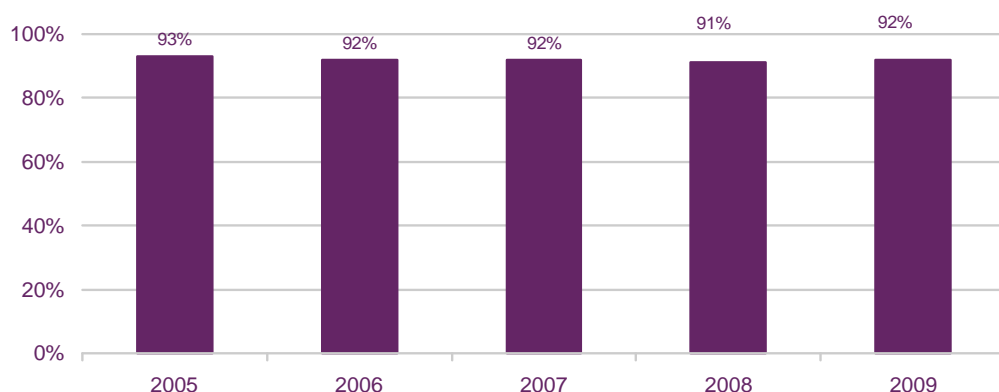
Overview of methodology

- 4.2 The research conducted for this report comprised deliberative research and a quantitative survey. The qualitative element explored consumers' awareness of, and opinions about, the various local media platforms, including less widespread media such as local TV, while the quantitative survey measured consumers' attitudes towards alternative local media. The survey explored consumers' attitudes towards only the more widely-used media, due to the low availability and use of platforms such as community media and local TV. Therefore, the majority of the analysis relating to the provision of local content via television refers to regional programming, as the sample did not include large numbers of respondents with access to local TV.

Over 90% of adults use local media

- 4.3 The majority of adults (92%) consume some form of local media. Older consumers drive local media consumption (94%) more than those aged 15-24 (87%).

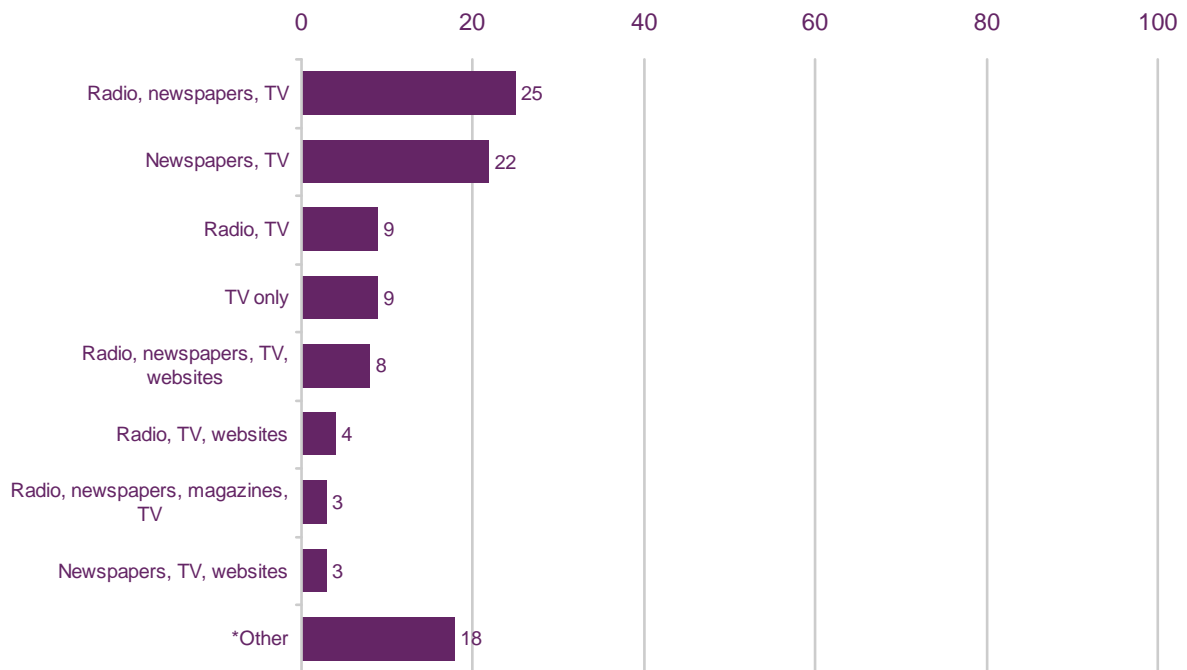
Figure 23: Trend in total use of local and regional media



Source: Ofcom's Media Tracker, April 2009, Ofcom's Technology Tracker 2005-2007
Base: UK adults aged 15+ (2009=1045)

Most adults use multiple sources of local and regional media

- 4.4 While consumers are able to name their main sources of local and regional media, most weekly users of local and regional media tended not to rely on one single source for their regular local news and information (88%).
- 4.5 Around a third said they used two sources (35%); a third used three sources (34%); and just under a fifth said they used four or more sources at least weekly (17%). Older regular local media consumers (35+) tended to use two or three different sources on a weekly basis, while younger regular consumers (16-34) were more likely than older age groups to use four or more sources – largely driven by their use of the internet.
- 4.6 The most popular combination of two local and regional media was newspapers and TV. Each of these sources was used regularly in isolation by almost a quarter (22%) of UK adults.
- 4.7 The most popular combination of three local and regional media also consisted of traditional media only - radio, TV and newspapers. These sources were all used regularly in isolation by a quarter of UK adults. A further 16% said they used all three of these sources in addition to other local media such as websites and/or magazines.
- 4.8 Websites appear to be being used as a supplementary source of local and regional content, given that most users said they tended to use at least three other local and regional sources as well.

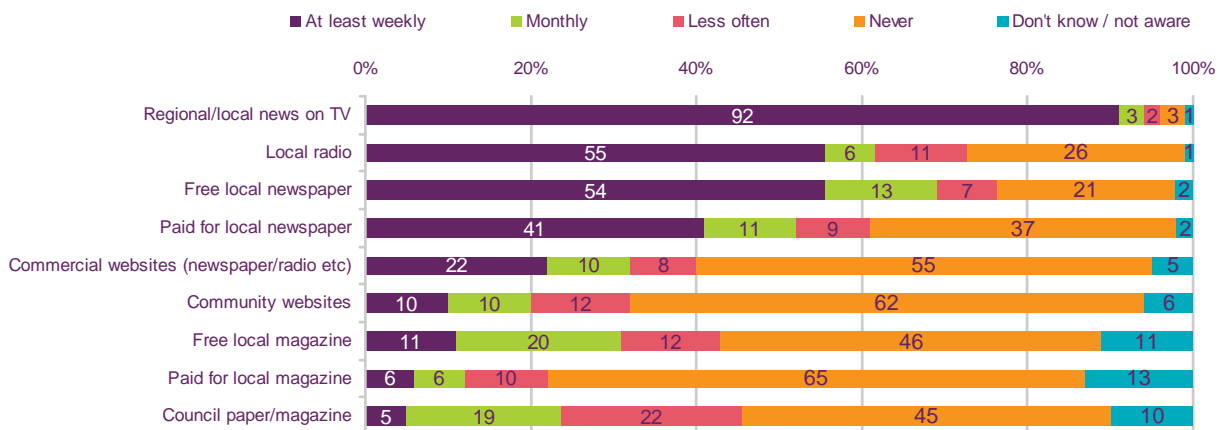
Figure 24: Groups of local and regional media used regularly

Source: Ofcom local media research, April-May 2009 Base: Weekly users of each local medium
 * includes all other combinations mentioned by 2% or less

Regional/local TV remains the most frequently-used local medium

- 4.9 Regional/local TV news is by far the most commonly-used local medium – used daily by four-fifths of UK adults and at least weekly by 92%. The majority of respondents responded on the basis of viewing regional programming on TV, given the low availability of local TV. Regional TV news bulletins are available on both BBC and Channel 3, with the most popular programmes shown in the early evenings, attracting a combined 8.7m viewers in 2008.
- 4.10 Local radio is the next most commonly-used local medium, with over half listening at least once a week.
- 4.11 Free local papers tended to be read on a weekly rather than a daily basis, and adults tended to be less likely to read paid-for local papers than free ones regularly (at least weekly) (41% vs. 54%).
- 4.12 Local magazines and council publications tended to be read more on a monthly than a weekly basis, which is probably a reflection of their less frequent publication schedules. A third of respondents said they read free local magazines at least monthly, and a quarter read council publications.
- 4.13 Paid-for local magazines and community websites are the least-used local media – around two-thirds claimed never to use them. In comparison, around a fifth said they used a local commercial website at least weekly.

Figure 25: Frequency of use of local and regional media



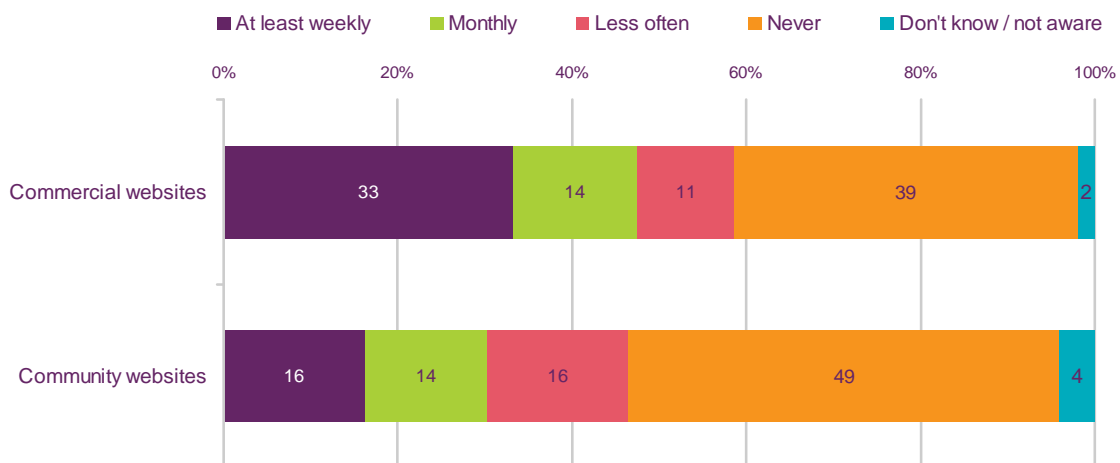
Source: Ofcom local media research, April-May 2009
 Base: All UK adults aged 16+ (1034)

4.14 In terms of age profile, regular viewers of regional news on TV and readers of free and paid-for newspapers tend to be older than the population as a whole, with high proportions of consumers in the 65+ age bracket. In contrast, local radio listeners tend to be younger.

4.15 The length of time people had lived in their local area also affected the likelihood of their reading paid-for local newspapers, and those born in their local area were more likely than other residents to read paid-for titles.

4.16 Use of websites for local content was, unsurprisingly, linked to home broadband ownership, with regular use of community websites rising to 16% and use of commercial websites rising to 33% among those with broadband at home.

Figure 26: Use of local websites among broadband customers



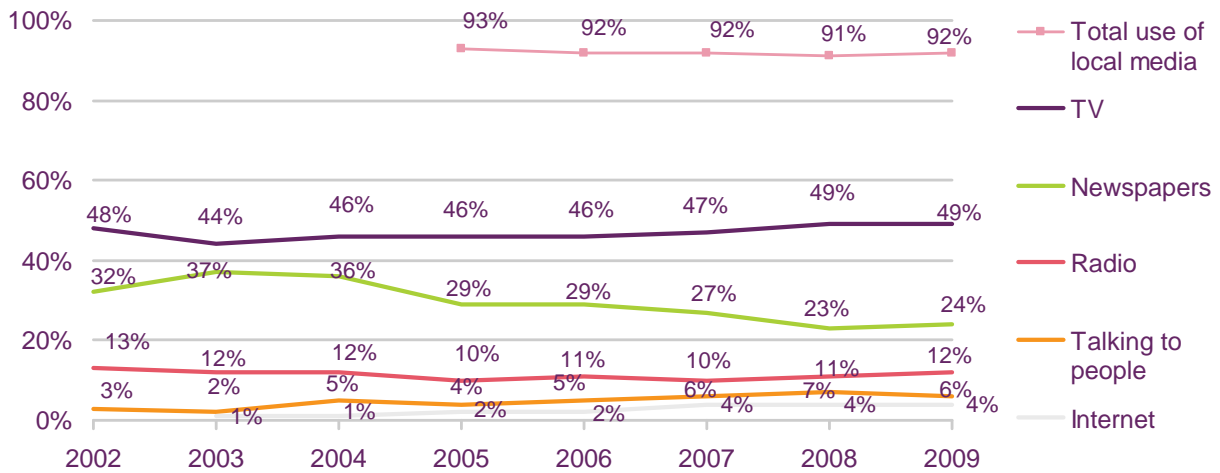
Source: Ofcom local media research, April-May 2009
 Base: All UK adults aged 16+ with broadband (659)

Regional TV is the main source of local news for around half of all adults

4.17 Use of TV as the main source of local and regional news stands at 49%, and use of the internet as a main source has risen to 4%. However, over the same period there

has been a decline in the proportion relying mainly on local newspapers – down by five percentage points since 2006 – and use of radio has remained relatively stable.

Figure 27: Trend in main source of news and information about local area



Source: Ofcom's Media Tracker, April 2009, Ofcom's Technology Tracker 2005-2009

Note: 2002-2008 based on rolled yearly data and is not directly comparable to 2009 data

Base: All UK adults aged 15+ (2009 n=1045)

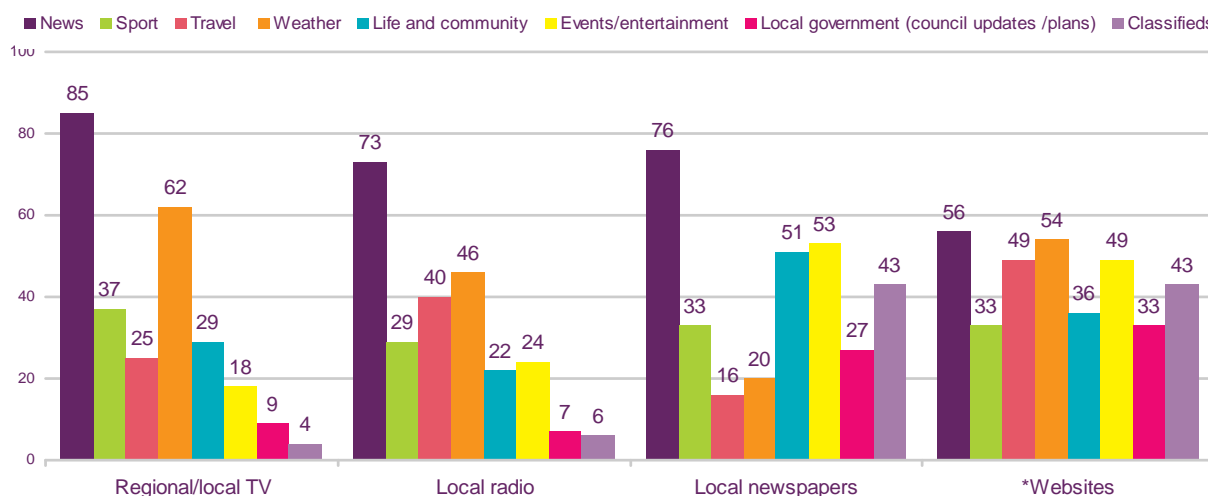
- 4.18 The internet appears to have had an impact on consumption of other local and regional media, particularly newspapers, for some people. While noted as the main source of local and regional news for only 4% of adults, a third of broadband customers said they used commercial websites on a regular basis⁴⁷. Nearly one in ten recent broadband adopters said they now spent less time reading local newspapers, and a quarter of those who accessed local newspaper websites said they did so instead of reading the hard copy.

Websites are competing with newspapers and radio for some local and regional content

- 4.19 Local media consumers use local media for a variety of types of content. Figure 28 illustrates which sources consumers are using for each category.
- 4.20 Most people use TV, newspapers and radio for local and regional news content, although more than half (56%) said they accessed local and regional news via the internet. Newspapers are particularly important for content such as 'life and community' stories and events/entertainment.
- 4.21 No single type of local and regional content is driving use of the internet/websites. Broadly similar proportions of weekly website users accessed news, travel, weather and events/entertainment information online.

⁴⁷ Local media quantitative research, April-May 2009

Figure 28: Local and regional content consumed via each medium



Source: Ofcom local media research, April-May 2009

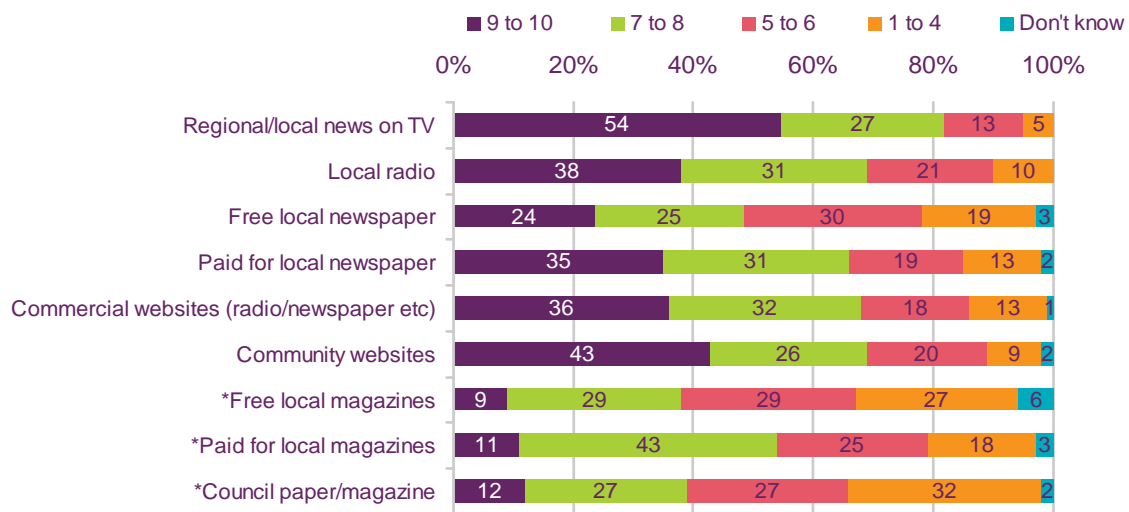
Base: Weekly users of each local medium

* includes community websites

- 4.22 Younger local and regional website users regard the internet as a natural way to access all types of local content, whereas older consumers of local media tend to be less familiar with the range of local information available. Older local media consumers tend to use the internet for specific activities, such as searching for information about local council services.
- 4.23 Consumers who sought local and regional information via local and regional websites were aware of the breadth of information available to them free of charge, which, unsurprisingly, limited their willingness to pay for content elsewhere. One of the core reasons given for increased use of the internet was that it provided cost effective/free access to local content.

Consumers value their local and regional media

- 4.24 Consumers value not only local content but also their preferred way of accessing it, which is important to bear in mind when analysing the following data. Local media was consumed by most respondents in allocated 'slots' and tended to form part of their daily or weekly routines. As such, it was difficult for consumers to differentiate between the importance of the local content and their means of accessing it.
- 4.25 TV was seen as the most important medium for regional/local news, in terms of those rating it above 7 out of 10, with local radio, paid-for local newspapers and websites each achieving similar scores.

Figure 29: Importance of local and regional media

Source: Ofcom local media research, April-May 2008

Base: All adults use each local and national medium at least weekly⁴⁸

* based on monthly users due to less frequent publication schedules for these media

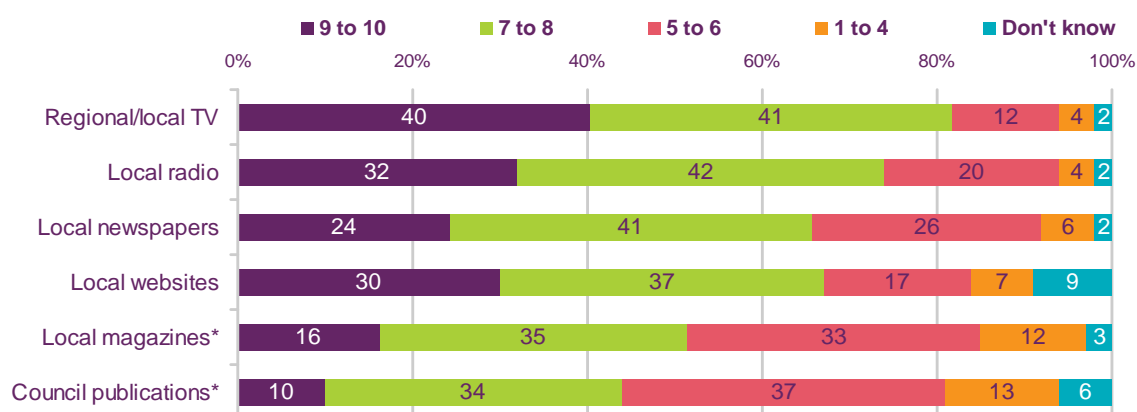
Most consumers tend to be satisfied with the quality of local and regional media

- 4.26 Consumers find it difficult to disentangle local content from the media platform, so it is likely that some respondents were taking into account their satisfaction with the platform when assessing the quality of the local and regional *content* provided. It is also apparent that for many local media consumers the quality of the content is not as valuable as its 'localness', so the expectations on which respondents based their satisfaction scores are likely to be somewhat lower than, for example, for national media⁴⁹. These findings should be borne in mind when interpreting the following data on consumer satisfaction with the quality of local content.
- 4.27 Satisfaction with the quality of local and regional content provided via TV, radio, newspapers and websites was relatively high, with two-thirds or more regular users stating a satisfaction score of 7-10 for each. Satisfaction was highest for TV, at 81%.

⁴⁸ Local/regional news on TV (947); Local radio (598); Local free newspaper (498); Local paid-for newspaper (483); Commercial websites (228); Community websites (109); Free local magazines (260); Paid-for local magazines (110); Council publications (208)

⁴⁹ 69% of adults agreed that it was more important that local media was locally presented than professionally produced, Local media quantitative research, April-May 2009

Figure 30: Satisfaction with quality of content via local and regional media



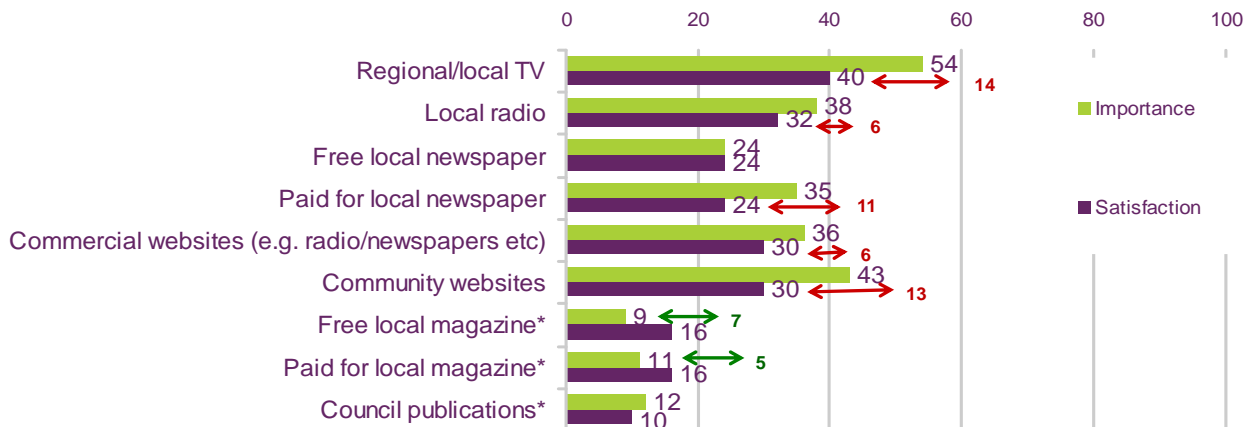
Source: Ofcom local media research, April-May 2009

Base: All adults use each media at least weekly (see footnote above)

* based on monthly users due to less frequent publication schedules for these media

- 4.28 Satisfaction with each of the traditional media tended to be driven by women and by DE socio-economic groups. For websites, satisfaction was mainly driven by men and by younger age groups (16-24 year olds).
- 4.29 Geographic analysis suggests that regular users of traditional local media living in rural parts of the UK were more satisfied with them than were those living in urban areas. Higher-than-average levels of satisfaction were also reported in Scotland (for radio and newspapers) and in Wales (for radio and TV).
- 4.30 To understand how well each medium is meeting the needs of its respective consumers, we assessed perceived importance versus satisfaction. For most local media, their perceived importance scores were higher than perceived levels of delivery (i.e. meeting needs). This is possibly because the question about importance was theoretical, while the question about delivery was more factual. Therefore, the relative size of the gap for each different medium is more interesting than the absolute figures.
- 4.31 TV, community websites and paid-for local newspapers show the largest gaps between importance and satisfaction – driven by the comparatively higher importance of these media to regular consumers. There was a smaller gap between satisfaction and importance both for radio and for commercial websites.
- 4.32 While local and regional magazines and council publications appear to be at least meeting expectations, this is due to the relatively low importance of these publications – and, in fact, satisfaction with these media is significantly lower than for all other platforms.

Figure 31: Importance of vs. satisfaction with local/regional media (scoring 9-10 out of 10)



Source: Ofcom local media research, April-May 2009

Base: All adults use each medium at least weekly

* based on monthly users due to less frequent publication schedules for these media

NOTE: satisfaction data were not assessed separately between paid and free magazines and newspapers, or between commercial or community websites

Consumers see regional TV and local and regional newspapers as being most important to society⁵⁰

- 4.33 In our research, we asked respondents whether they would be prepared to support various forms of local media in the future through external funding. They were asked to distribute a pot of public money across various local media offerings, and completed the task from both a consumer, and a citizen, perspective.
- 4.34 Respondents were given a description of each service in the context of how it would support the provision of local content. Regional TV and local TV were discussed separately, and respondents allocated their money accordingly. The sources that gained most consumer/citizen support were regional TV and local newspapers – these long-established sources of local news are embedded in peoples’ lives, and this ensured them consistent support.
- 4.35 Regional TV was thought to benefit the greatest number of people, but was valued largely for ease of access and universal availability, as opposed to its ‘local’ content provision.
- 4.36 Local newspapers were understood to be struggling. Many respondents felt an emotional tie with this medium, and considered it essential for those interested in following local politics.
- 4.37 Local radio, like TV and newspapers, is a long-established source of local news and is deeply ingrained in people’s lives and routines. Respondents did not believe that local radio would cease to be commercially viable, and thought that it would survive without additional support. This perception limited the amount of support for this medium.

⁵⁰ Local media deliberative research, April 2009

- 4.38 Levels of support for local TV were often driven by an assessment of viability. Many respondents felt that it could have real value for communities, but they were also concerned that it would need a serious amount of investment to achieve quality content and the right degree of localness. Most were therefore not prepared to support local TV for fear of losing more established platforms without gaining a quality substitute.
- 4.39 Similarly, support for community media was also given according to viability. Many respondents felt that this option could have real value for communities, and offered better value for money than local TV. However, they thought that users would need to have strong links with the medium to make it of personal interest. Some did not choose to invest, as they feared losing more established platforms without gaining a quality substitute.

Figure 32: Local and regional media options



Source: Ofcom local media deliberative survey, April 2009

Base: All respondents – sample of high and medium-use local media consumers (n)

- 4.40 In the consumer research, we also addressed consumer attitudes to broader issues of plurality and ownership of local media. For further details on this, please refer to the Media Ownership Rules Review document, a copy of which may be obtained from: <http://www.ofcom.org.uk/consult/condocs/morr/morrcondoc.pdf>

Section 5

The economics of local and regional media

Introduction

- 5.1 This section of the report focuses on the economics of local media, including local commercial radio, local and regional television and local and regional newspapers.

The key points covered in this section are:

- Prior to the current recession, local commercial media were facing flat or declining advertising revenues despite a period of economic growth.
- It is debatable whether an economic recovery will lead to revenues growing again, or whether they have moved permanently to online competitors.
- Either way, the structural change caused by competition with online content is likely to continue, and may be accelerated by any increases in mass access and use of the internet.

We have chosen to focus on a general overview of the sector rather than an evaluation of individual companies

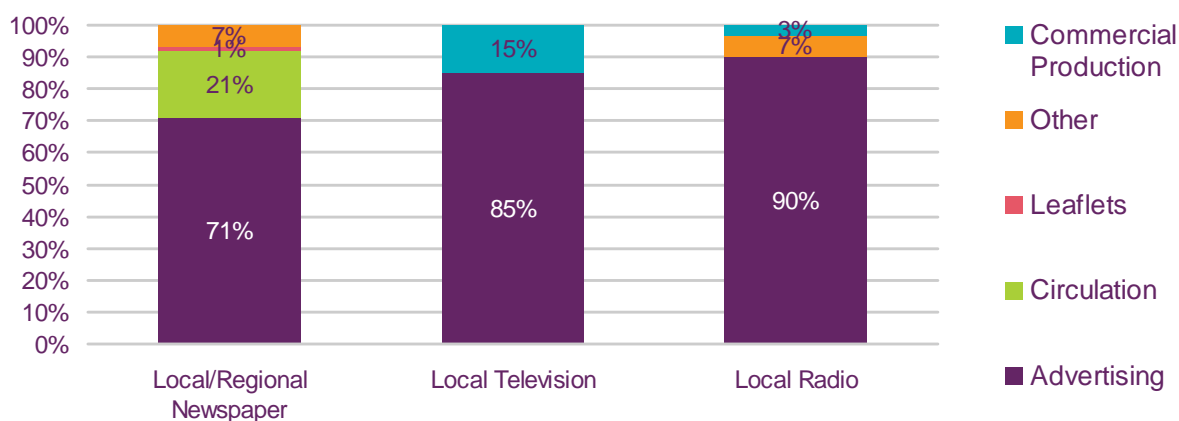
- 5.2 Any discussion of the economics of local media encompasses a number of sectors with significant similarities and differences. Even within a sector, the size and structure of the local media landscape varies considerably. Larger companies, running multiple titles or stations on a group basis are economically very different to a small independent local media company. We recognise that capturing the full diversity of the local media sector is therefore extremely challenging.
- 5.3 Alongside traditional local media, a large amount of local information and comment is available online, either as an extension of traditional local media companies' business, or from independent sources such as not-for-profit community organisations or residents' committees. The economic value of these can be difficult to capture as they are often volunteer-run and non-profit-making; we have therefore not analysed these in this section.
- 5.4 In this report we have considered operating profitability as a measure of ongoing sustainability, with only limited references to debt repayment and pension issues. Debt and defined benefit pension scheme deficit issues are significant for some local commercial media providers, while others are relatively unencumbered. We also recognise that return on capital employed (ROCE) may be a more appropriate financial measure for the relatively capital-intensive newspaper industry. However, we have chosen to focus on operating profit because of lack of available data on individual operators' capital requirements, and a lack of a consistent picture across the market as a whole.

Mass broadband access challenges the traditional business models of commercial local media

- 5.5 The economics of commercial local media are changing rapidly. The current recession is leading to declining demand for advertising and a corresponding drop in advertising revenues. However, longer-term structural trends are also evident. The first is that commercial local media are facing declining audiences, which reduces their advertising revenues. The second is that they face a new competitor, for audiences and revenue stream, with the advent of mass access to online content.
- 5.6 The continuing growth of broadband access creates a new content platform which strongly challenges traditional media. Traditionally, television provides video content, radio provides audio content and the press provides written content. Online content shifts the economics of content provision, as written, audio and video content are now all available through an alternative distribution platform.
- 5.7 Online content also has a lower barrier to entry, as the costs of setting up a website are very much lower than investing in mass broadcasting or printing presses. So new competition can enter the market more easily, and traditional platforms for content delivery must compete across platforms for audiences, e.g. TV competing with radio, and also within their own content, e.g. television video competing with online video.
- 5.8 Online also offers an opportunity to media providers; as a new way of distributing content, it can offer additional revenue and access to new markets. But it is not yet clear whether business models for monetising online content will emerge which can also support particular types of content, e.g. journalism, which has a high staff cost.

Advertising revenue is the lifeblood of local commercial media but it is facing disruption from a range of pressures

- 5.9 To understand the impact of the economic change on traditional local media, our starting point is the revenue of each sector. Figure 33 sets out the revenues by distribution platform.
- 5.10 We have created a generic revenue outline for each platform, although there are multiple business models within these averages. For example, a free newspaper has no circulation revenue, and those circulation revenues will be different for daily or weekly paid-for newspapers. Similarly, some local TV providers receive additional public support, or offer production services to other companies.

Figure 33: Industry average of local and regional media revenue sources

Source: Ofcom^{51 52}

5.11 It is clear from Figure 33 that the traditional local and regional media sector is dependent on advertising for a substantial majority of its revenue. However, the underlying economics of advertising-funded business models has changed over the last five years. This change in advertising-funded business models can be linked to:

- **Long-term or 'structural' change** – Long-term or 'structural' change comes from alterations in consumer behaviour, e.g. rises and falls in total consumer numbers. It also comes from the arrival of new competitors, e.g. the growth of digital platforms that compete directly for audiences and advertising revenue. Structural changes challenge the underlying business models of established providers such as newspapers, local radio and commercial public service broadcasters.
- **Short-term or 'cyclical' change** – Short-term or 'cyclical' change comes from the macroeconomic environment, e.g. the current downturn. These can compound the effect of pre-existing structural change as competition becomes more intense or financing becomes more difficult. It can also increase the burdens of debt repayment or pension deficits.

5.12 These changes are visible in the trends in advertising expenditure, set out in Figure 34.

⁵¹ This has been calculated using an average of industry information for 2008. It is based on a sample taken from data provided by Oliver and Ohlbaum, Value Partners, Companies House, and companies within the industry.

⁵² The industry average for local press revenues differs from that which was quoted in the OFT paper *Review of the local and regional media merger regime*. We have included a higher level of granularity in our figures and therefore this is likely to explain the variance between their 80% advertising figure for local press.

Figure 34: Advertising spend (nominal) by medium, 2003 - 2008



Source: The Advertising Association/WARC (www.warc.com)

- 5.13 The cyclical impact of the recession is also visible in Figure 34. After growing between 2003 and 2007, total advertising expenditure fell in 2008 by nearly 4% to £16.4bn, and all main media except the internet recorded large falls in advertising expenditure in 2008.
- 5.14 Figure 34 also highlights the structural changes in advertising revenues that have occurred since 2003. Advertising revenue traditionally rises in periods of economic growth. This was true for overall advertising revenues between 2003 and 2007, but despite the growth in the economy, the advertising revenues for the newspaper, television and radio sectors were flat or declining during this period. For example, newspaper advertising revenues in 2007 were £200m less than in 2003, despite an increase in the advertising market by £2.3bn over the same period.
- 5.15 Advertising is divided into two broad types – display and response. Display advertising is often the most familiar form of advertising, e.g. product pictures in a newspaper. Response advertising includes classified advertising and paid online search.
- 5.16 Display advertising in local and regional media can be classified as being either national (i.e. in the sense of UK-wide brands, such as supermarket chains) or ‘local’, such as advertising placed by companies operating within a defined geographic area, such as a locally-owned supermarket with a sole outlet, or a small chain. Changes in the retail environment, including consolidation and changes in shopping habits, may also affect the mix between local and national display advertising in local media.

Advertising revenues are changing as a greater proportion moves online

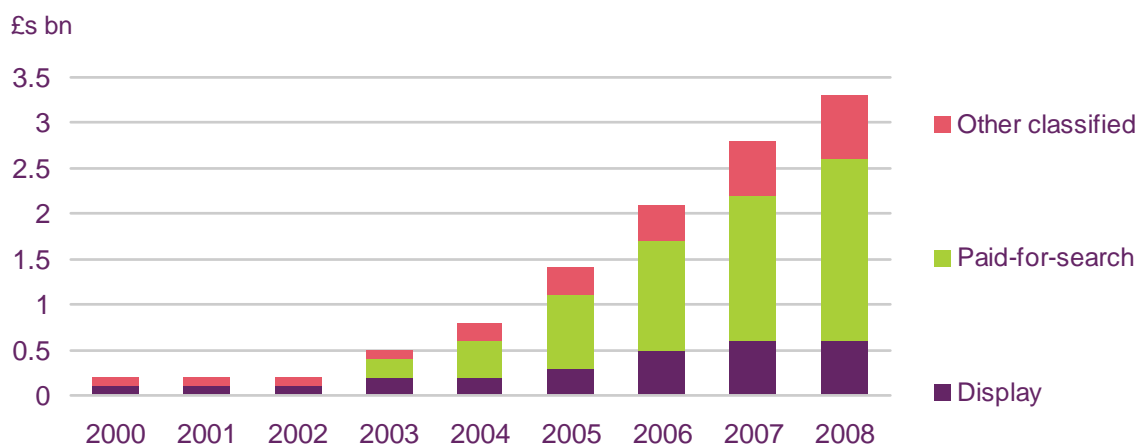
- 5.17 Response advertising has grown rapidly, in comparison to display advertising (see Figure 35).

Figure 35: Display and response advertising trends

Note: includes consumer media only (excludes business directories) and radio display advertising figures based on company accounts and not AA

Source: Advertising Association/WARC, Company Accounts, Oliver & Ohlbaum Analysis

- 5.18 Figure 35 shows that total response advertising has grown while display advertising has remained broadly flat. The growth in response advertising has been driven by online advertising, which increased by 17% over 2008 while the advertising industry as a whole declined by 3.5% in real terms in the same year⁵³. Online advertising now holds a market share of 19.2%, up from 15.5% in 2007⁵⁴. This has come at the expense of traditional advertising. However, the percentage increase of online advertising has slowed in the year to 2008 in comparison to previous years, as a result of the global economic recession.

Figure 36: Internet advertising spend, by type, at current prices, 2000 to 2008

Source: The Advertising Association/WARC (www.warc.com) Oliver & Ohlbaum analysis

- 5.19 Figure 36 shows that online advertising has been driven primarily by paid-for search, but it is also competing directly for display and other classified revenues. As a result, online advertising has a dual impact on local commercial media advertising revenues. First, it introduces a new source of competition to the market, with significant capacity. This capacity can drive down advertising prices as competitors need to

⁵³ Internet Advertising Bureau fact sheet: *Online adspend – 2008* www.IABUK.net

⁵⁴ Internet Advertising Bureau fact sheet: *Online adspend – 2008* www.IABUK.net

reduce prices to match the value proposition of online. Second, online is effective at attracting classified advertising, from which local and regional media have traditionally derived significant revenue, e.g. through sites like *Craigslist*.

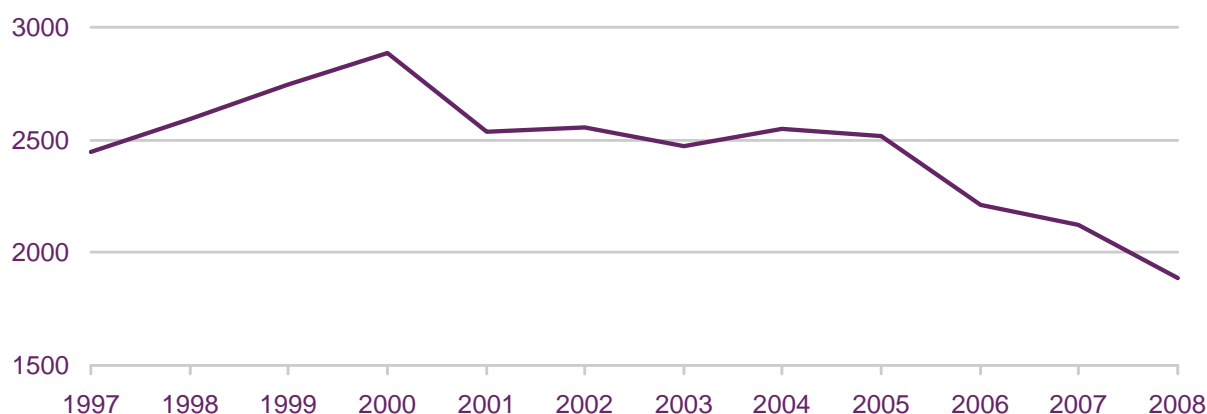
- 5.20 The rise of online advertising therefore presents a challenge to traditional media. It offers a new revenue stream but also opens up display and classified advertising revenues to a number of new competitors. Taken together, the structural and cyclical changes have had a major impact on the viability of local and regional media providers' business models. This is resulting in pressure on local media companies to adapt to the impact of falling advertising revenues.
- 5.21 As a result many local media companies have undergone cost-cutting measures and there has been a significant degree of consolidation within many industries such as local radio and local press. In the rest of this section we present a high-level assessment of costs and future profitability, on a sectoral basis.

Commercial regional television is under threat

- 5.22 In our second PSB Review, *Putting Viewers First*, audience research highlighted that the most important priority for viewers in the devolved nations and English regions is to ensure the provision of regional news beyond the BBC.
- 5.23 Regional TV news is provided by the BBC and by the Channel 3 licensees, ITV, STV, UTV and Channel TV. However, the substantial commercial pressure on the ITV network is resulting in tension between the need to reduce regulatory burdens and the ongoing ability to maintain and invest in public service programming, e.g. regional television news.
- 5.24 In January 2009 we published the conclusions of our Second PSB Review.⁵⁵ The review noted the significant pressures on free-to-air commercial broadcasters from both structural and cyclical change.
- 5.25 Our analysis showed that the recent reduction in advertising revenue stands in contrast both to the guaranteed revenue stream of the BBC and the historic high growth rates in TV advertising revenue.
- 5.26 Television advertising is facing declining revenues in the current economic climate as it comes under structural and cyclical pressures. Figure 37 illustrates the decline in television advertising since 2000.

⁵⁵ For more information see Ofcom (2009) *Putting Viewers First*

Figure 37: Commercial terrestrial television advertising revenue, at constant (2000) prices



Source: The Advertising Association/WARC (www.warc.com)

- 5.27 As a result of these conditions ITV plc has indicated that it may reduce its contributions to regional television programming, in particular news. This is addressed further in the section on Independently Funded News Consortia.

Local television faces a challenging economic climate

- 5.28 There are few examples of commercial local television providers in the UK, so any economic and financial assessment of the industry must be limited to a few working examples and a number of theoretical discussions. We can use a number of assumptions about the potential model for local commercial television as a proxy for the wider industry, although the lack of commercial local television providers (after several market exits over the past few years) suggests that the sustainability of a commercial local TV model is challenging.
- 5.29 During the PSB Review, Ofcom commissioned Oliver & Ohlbaum to build a hypothetical local television model to assess the sustainability of local commercial TV⁵⁶. The study assessed the 15 largest urban centres for their advertising potential, and compared this with the costs of running a day-long schedule, to assess the viability of local television.
- 5.30 Using this analysis, we concluded that the commercial model for local television is challenging, and local television would not be sustainable on an individual basis for much of the country. However, the analysis suggested potential for a UK-wide network to be sustainable, if supported by a cross-subsidy from profitable urban areas. Only London and Manchester were large enough to support a standalone commercial local television station on an ongoing basis.
- 5.31 This analysis also concluded that local television would require a cost per thousand (CPT) advertising rate of over £11 if commercial local television were to be viable on a stand-alone basis in the five largest UK cities. This was in excess of the advertising rates achieved by national television channels, and since then the recession has brought a further decline in advertising CPT.

⁵⁶ Oliver & Ohlbaum (2009) *The Sustainability of Local Commercial Television* [Internet]. London. Available from: Ofcom
http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/annex4.pdf

A key challenge for local TV businesses is to balance the costs of providing a service attractive to local viewers with the potential advertising revenues it may generate

- 5.32 Run on a commercial basis, local television is likely to be funded mainly through advertising. There is potential for revenue from programme production, and there are examples of local TV channels which currently generate revenue from sponsored and commercial programming, but advertising represents the biggest potential contributor to revenues.
- 5.33 There is no reason to assume that local television would be immune to the general trends underlying wider television advertising, which is currently subject to significant structural and cyclical pressures. .
- 5.34 In summary, the high costs of television production, relative to achievable revenue, will make it difficult for a local TV channel to break even. But opinions differ; a number of stakeholders challenged the assumptions of the PSB analysis, arguing that local television content can be produced at a lower cost. We have also restricted our analysis to local TV run on a commercial basis. Community radio has set out a template for not-for-profit local services which are able attract funding from a range of sources. NvTv in Northern Ireland runs on a similar basis, and could provide a template for non-commercial local TV services in the future.

The local and regional commercial radio sector is particularly vulnerable to the current economic climate

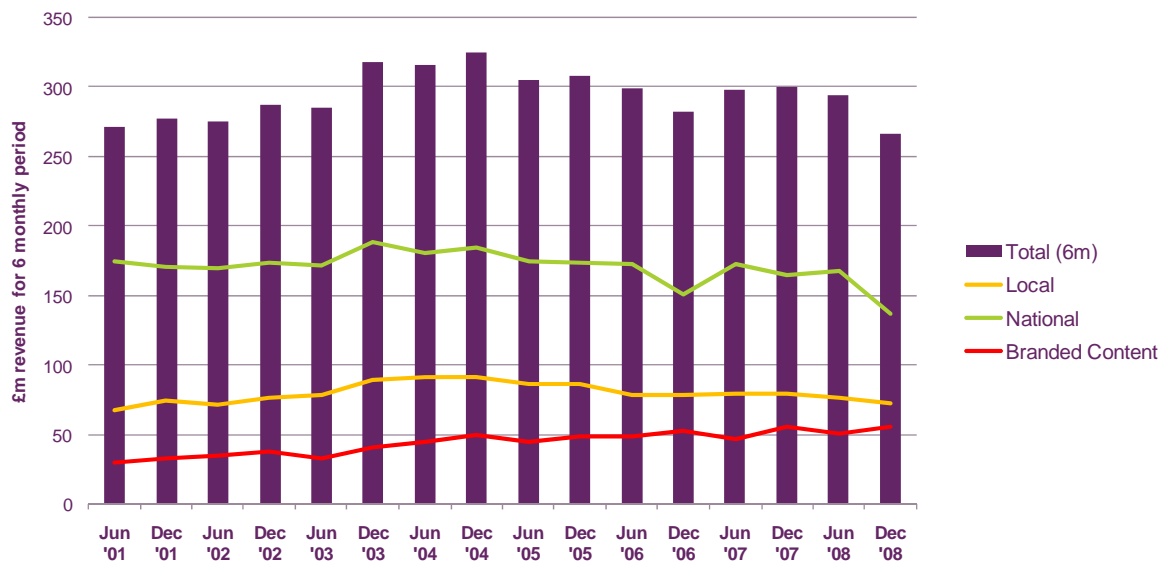
- 5.35 The commercial radio industry is shared between a few large players, smaller groups and a number of independent stations. Larger groups appear more capable of managing current difficulties, having reaped the rewards of significant consolidation. Smaller independents, many of whom were unprofitable before the current economic decline, are more at risk. Regardless of group size, radio stations serving small communities face an uncertain future in the current economic climate and regulatory framework.
- 5.36 Radio is primarily advertising-funded, and advertising revenues are driven by radio audiences. Overall radio audience figures are in slight decline (falling from 91% to 90% of UK adults in the past five years). In addition, the BBC is gaining audience share at the expense of local commercial stations. This risks further reducing the impact and value of radio advertising if commercial audiences decline further. The cyclical decline in advertising revenues during the current recession is increasing the impact of these structural trends.
- 5.37 Consequently, there are concerns about the financial viability of some local commercial radio stations. Since the beginning of 2008, eight licences have been surrendered, and with revenues continuing to fall, it is possible that this trend will continue. Some in the industry argue that too many small commercial stations have been licensed and that some sort of rationalisation is inevitable.

Local radio and regional radio depends on advertising, which is based on audience, and both are currently in decline

- 5.38 Audience share is vital to local and regional commercial radio, which depends on revenues from display advertising. Figure 10 in Section 4 shows the fall in audience listening share experienced by local commercial radio over the last decade, in comparison to the increase in market share that the BBC has enjoyed.

- 5.39 Local commercial radio faces a significant competitive challenge from the BBC. The BBC has a guaranteed income to spend, even through the recession, whereas commercial stations have had to cut costs as a result of falling revenues. There is a risk that cost-cutting could reduce the quality of local commercial radio, making it more difficult for it to compete with the BBC. This may cause a downward spiral for local commercial radio, and the loss of more listeners to the BBC stations.
- 5.40 Lower audience figures, and the economic downturn, have together affected commercial radio revenues, which have declined substantially over the past five years, with a 6% decrease in advertising spend from 2007 to 2008. Figure 38 shows the fall in commercial radio revenue over the last decade, at current prices.

Figure 38: Commercial radio revenue, by six-monthly periods



Source: RAB

- 5.41 As a result, average revenue per commercial radio station fell by 16% to £1.6m from 2007 to 2008 and is down by 38% since 2003 (£2.7m)⁵⁷. While the fall in average revenue is partly due to the increasing number of commercial radio stations, it is important to recognise that total revenues have fallen across the industry. Total commercial radio revenue for the year to Dec 2008 was £560m, against a peak of £641m for the year to Dec 2004⁵⁸. This decline in revenues is now threatening sustainability.
- 5.42 The dynamics of national and local advertising add another dimension to declining radio advertising revenues. Radio is used both by national and local advertisers, and national radio advertising revenue is falling faster than local radio advertising revenue. This is consistent with previous recessions (1990, 1992 and 2001⁵⁹) when locally-based advertising increased its share of commercial radio advertising.
- 5.43 The steeper decline in national advertising must be considered alongside the fact that national radio advertising is generally more profitable than local advertising, and tends to accrue to the larger radio providers. As a result the larger radio groups have

⁵⁷ Enders Analysis *UK Commercial Radio update 2009-034*, 13 March 2009

⁵⁸ Source: RAB

⁵⁹ Source: Enders Analysis: *UK Commercial Radio update 2009-034*

greater exposure to national advertising revenues (57% of revenues compared to 9% for independents⁶⁰), and so they are likely to suffer a greater percentage decrease in revenue as national advertising declines faster. Yet the larger groups tend to be more profitable overall and so have a greater ability to sustain falls in revenues.

- 5.44 Up to Q3 2008, stations in major groups had, on average, a positive operating profit margin, while minor groups and independents averaged negative operating profit margins of -6% and -23% respectively. With Q4 2008 results showing further falls in profitability, minor groups and independents look unlikely to break even over the short term. However, these are industry averages, and within each group there is a wide range of results, including profitable independents and minor groups.
- 5.45 The outlook for the major radio groups is also worrying. From their operating margins, these companies must finance any debt and consider any return on capital employed. Based on the most pessimistic forecasts, unless costs can be reduced from 2009 onwards to take account of expected falls in revenue, even major groups could be vulnerable.
- 5.46 Profitability also varies by the measured coverage area (MCA) of individual stations. Larger stations are generally more profitable than smaller stations, and in 2008, on average, stations with population coverage of fewer than 300,000 made a loss. If 2009 average revenues fall by 10% from their 2008 levels, only those stations with an MCA of more than 750,000 will make an operating profit.

Figure 39: Profitability, by Measured Coverage Area

| Station Size (Measured Coverage Area) | 2008 Operating Profit | 10% fall in revenues | 20% fall in revenues |
|---------------------------------------|-----------------------|----------------------|----------------------|
| Less than 300,000 | - 8% | - 16% | - 26% |
| 300,000 to 750,000 | 5% | - 2% | - 11% |
| More than 750,000 | 16% | 10% | -20% |

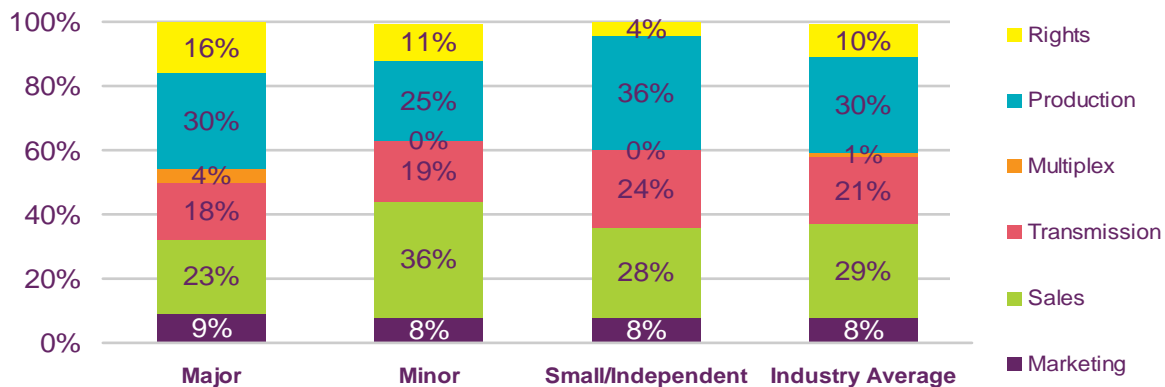
Source: Value Partners

- 5.47 A large number of commercial radio groups have already started cost-cutting in an attempt to reduce the impact of structural and cyclical decline. In some cases, radio stations are exiting the market because the local commercial radio business model is no longer economically viable in their areas.

The underlying costs of radio suggest that some self-help is possible, but this may not go far enough to sustain the whole sector

- 5.48 Radio stations have a significant proportion of relatively inflexible fixed costs, such as transmission and production costs. These account for over 50% of the overall industry costs, with transmission and production accounting for 60% of independent/small group costs. These costs are relatively inflexible per station. Therefore any merger within the industry, or with different media, will achieve only limited cost savings; while there might be savings from sharing premises, staff costs and overheads, any savings in transmission and production costs might require changes to the regulatory regime.

⁶⁰ Value Partners research-based data for the 12 months to Q3 2008

Figure 40: Average local radio station costs, by group size.

Source: Value Partners

- 5.49 Industry consolidation and cost-cutting measures have already begun and further savings may be difficult to achieve. For example, there has already been consolidation within national sales advertising; the majority of this is handled by the major national sales houses. The large groups operate their own national sales teams, whereas First Radio Sales (FRS) represents minor group and independent stations.
- 5.50 The combination of a high degree of fixed costs and potentially limited room to reduce other costs without affecting quality and/or revenues makes cost reductions within the current system difficult to achieve. This is supported by research undertaken by Value Partners for Ofcom, which found that most stations are already running extremely lean and there are few opportunities to reduce costs. The report said that the impact of lower revenues could be severe on stations which are either loss making or currently operating with low margins.”⁶¹
- 5.51 For further analysis and forecasts of profitability of local and regional commercial radio stations by MCA, please refer to our consultation: *Radio: the implications of Digital Britain for localness regulation*.

The local and regional newspaper sector could be at risk if the industry fails to recover from the current downturn

- 5.52 Since 2004 both display and classified press advertising have been in decline despite strong GDP growth in the UK⁶², which normally triggers a corresponding rise in advertising. This suggests a structural decline in the advertising revenues of the sector. In addition, the local press have suffered ongoing circulation declines and must respond to the challenge of the current recession. These forces have contributed to the closure of 66 local newspapers between January 2008 and July 2009, although the majority of these were freesheets, in areas where other titles exist in the market⁶³.

Circulation has been falling but this has been offset by increases in cover price

- 5.53 Circulation figures play a vital role in maintaining both advertising and circulation revenues. The size of the audience determines the value of the newspaper’s

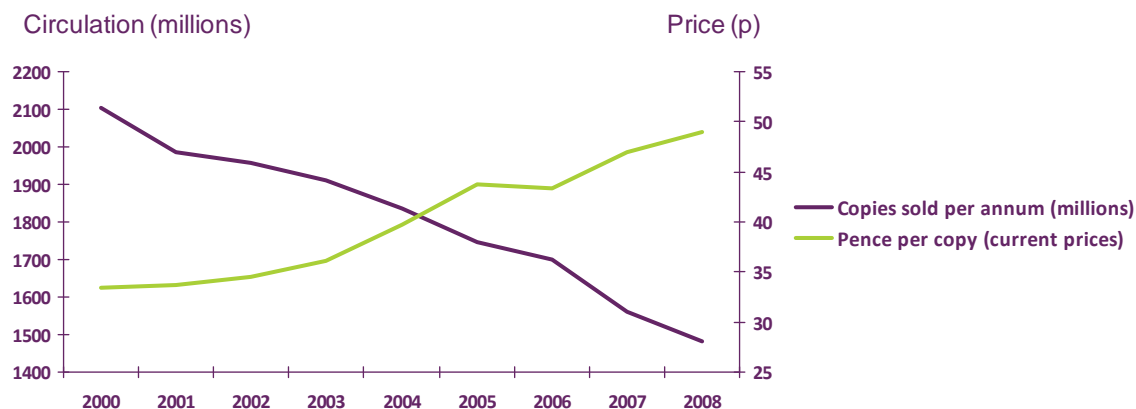
⁶¹ Value Partners research for Ofcom

⁶² Oliver & Ohlbaum research for Ofcom

⁶³ See Section 6 for further details

advertising, and circulation revenues come directly from the cover price of each copy sold. Yet as Section 4 demonstrates, newspaper consumer numbers are in long-term decline.

Figure 41: Local and regional paid-for newspaper circulation and cover price



Source: Advertising Association/ WARC (www.warc.com).

5.54 The number of copies of paid-for local and regional papers sold per year has fallen. At the same time, the price per copy has risen, in an attempt to negate the top-line impact of declining circulation. As a result circulation revenues have remained broadly flat or slightly increased over time. We see a similar decline in circulation for free weekly papers.

Figure 42: Local and regional paid for newspaper circulation, circulation revenue and average cover price, 1998 to 2008

| | Circulation CAGR (1998-2008) | Cover price CAGR (1998-2008) | Circulation revenue CAGR (1998-2008) |
|----------------------|------------------------------|------------------------------|--------------------------------------|
| Evening daily titles | -4.5% | 3.7% | -1.1% |
| Weekly titles | -1.0% | 5.2% | 4.1% |
| Morning daily titles | -1.9% | 3.7% | 1.7% |
| Sunday titles | -5.2% | 6.7% | 1.2% |

Source: Advertising Association/ WARC (www.warc.com), Oliver & Ohlbaum analysis

5.55 It is unclear to what extent newspaper prices can continue to rise; the risk is that price rises may reach a point where they erode circulation to unsustainable levels. So far, the balance between circulation decline and price rises has resulted in small overall revenue increases. This may not be sustainable.

Classified advertising is particularly vulnerable

5.56 The small increase in circulation revenues is offset by significant falls in advertising revenues, which account for an average of 71% of local press revenues. This decline in advertising exists in display and classified advertising, and is shown in Figure 43.

Figure 43: Local and regional press advertising split

Source: Advertising Association/ WARC (www.warc.com).

- 5.57 Figure 43 shows that advertising revenues have been declining since 2004, with classified advertising declining more steeply than display. This is significant, because classified advertising provides a larger proportion of advertising revenues to the local commercial press than does display advertising.

Figure 44: Local press advertising: breakdown

| Advertising Type | 1998 | 2008 |
|------------------------|------|------|
| Display | 35% | 32% |
| Classified Motors | 13% | 9% |
| Classified Property | 12% | 18% |
| Classified Recruitment | 24% | 26% |
| Classified Other | 15% | 15% |

Source: Advertising Association/ WARC (www.warc.com).

- 5.58 The three main areas of classified advertising are recruitment, motors and property. Of these, recruitment and motor classified are most affected by the structural decline brought about by the rise of the internet. The breakdown of advertising revenue by type for the local commercial press is presented in Figure 44. This highlights the importance of classified advertising and also the substantial role that recruitment advertising, in particular, plays in providing advertising revenues.
- 5.59 Recruitment is particularly vulnerable to online competition, and as Figure 44 shows, it represents a significant proportion of local commercial newspaper advertising revenues. Recruitment provides approximately a quarter of all local newspaper advertising revenues, and is the one of the most profitable forms of advertising.
- 5.60 As a result, the long-term questions over the recoverability of recruitment advertising by local commercial press, when faced with online competitors, are pertinent to the

health of the sector as a whole. There is strong evidence of a migration of spend to online classified and paid-for-search advertising.

- 5.61 Property advertising appears to be more resilient to the effects of the structural decline. Some stakeholders have suggested that online property advertising is complementary to, rather than a substitute for, advertising in traditional media.
- 5.62 There is some evidence that dedicated property websites appear better able to manage the current economic downturn; they are maintaining their site traffic. If this is the case, then online property sites may represent a source of longer-term substitution, resulting in structural decline; advertisers may not return to newspapers when the recession ends.
- 5.63 Analysts have mixed views on the degree to which there could be a recovery in local newspaper advertising. For Ofcom, Oliver & Ohlbaum conducted an analysis of past recessions, which showed that previous declines in advertising have been recoverable. In contrast, Enders Analysis has suggested that levels of spend on recruitment and property may stay depressed, even after an economic recovery.

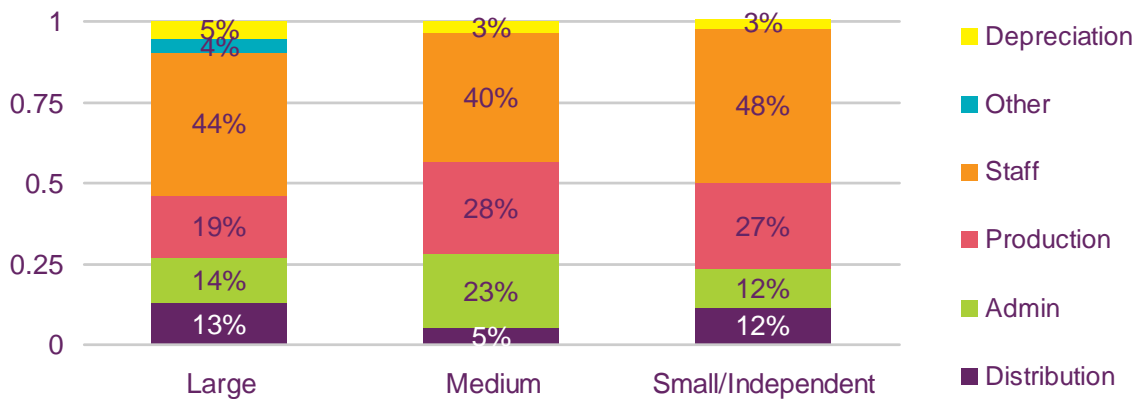
Display advertising is also in decline

- 5.64 Display advertising has not experienced the same level of structural decline as classified spend. Yet display has been affected by the current economic downturn, and although recovery is expected, the degree to which this occurs will depend upon the ongoing decline in circulation of the papers and the growing online competition.
- 5.65 However, online is regarded by some stakeholders as a less effective outlet for display advertising, and so competitive pressure for display revenues may be less intense, despite 2008 online display advertising amounting to £637m⁶⁴.
- 5.66 There are also concerns that the underlying nature of local advertising is changing as local high streets have a higher proportion of chain stores, which may not advertise at local level. Any reduction in the number of local businesses seeking local advertising could result in further declines in local display advertising revenue.

Local and regional newspapers are employing a number of strategies to manage short term economic pressures

- 5.67 Local newspaper companies have undergone a period of cost-cutting and consolidation, with recent announcements suggesting further cost reductions during 2009.

⁶⁴ Internet Advertising Bureau Fact Sheet: *Online adspend – 2008* www.IABUK.net

Figure 45: Local and regional newspaper cost structure, by group size

Source: Oliver & Ohlbaum

- 5.68 Premises costs could be shared and staff and administrative costs may also be targeted. Some have adopted ‘hub and spoke’ models (see Section 7) where offices have been centralised in major urban areas. However, as with local radio stations, there are a high proportion of unavoidable fixed costs, which reduces any potential cost synergies. There are also certain unavoidable cost increases, including newsprint, which represents approximately 15% of regional newspaper costs⁶⁵.
- 5.69 Other investments include greater use of technology, for example advanced content management systems enable newspapers to be printed locally rather than shipped out from a central location. It is not clear how far technological cost savings can transform local newspaper business models to make them more sustainable. There is a risk that deep cuts would threaten the public value of newspapers if the quality of journalism was affected (see Section 7).
- 5.70 Local and regional newspaper groups are also developing their online classified offerings to partially recapture some of their lost revenue. There is an opportunity for local newspapers to capture some of the increase in online advertising, but it is doubtful whether the growth of online revenues can offset the decline in print revenues.

⁶⁵ Oliver & Ohlbaum research for Ofcom

Section 6

The role of local and regional journalism

Introduction

- 6.1 The previous section showed that local and regional media businesses are facing severe commercial pressures. These pressures stem both from structural changes to the industry as a whole – particularly the long-term migration of advertising to the internet – and from the current cyclical downturn.
- 6.2 All parts of the ‘traditional’ local and regional media ecology have been affected by these developments, including newspapers, local radio and regional television. The response of the commercial operators has been to reduce costs and overheads, which has led to job losses, including those of journalists. This in turn has led some to talk of a crisis in local and regional journalism and to suggest a consequent threat to informed local democracy.
- 6.3 While our focus in the report is on broadcast media, we have chosen to examine the role of local newspaper journalism, given the links between print and broadcast journalism, such as the way in which stories may be originated by print journalists before being picked up by other media.

The key points covered in this section are:

- Local/regional news is valued by consumers, and plays an important role in the citizen interest by holding public institutions to account.
- Some stakeholders have suggested that there is a ‘crisis’ in local journalism, citing economic pressures; newspaper closures and job losses; and a perception that the quality of journalism is falling.
- Changes in technology and industry practices mean that fewer employees are needed to produce news stories.
- Newspaper closures have been concentrated among second- or third-placed titles in competitive markets, and have often been freesheets.
- Content analysis of local newspapers finds little evidence of deterioration in quality and consumers appear to be satisfied with quality.
- Some stakeholders have raised concern at the impact of local authority newsletters on the wider local media landscape.

Local journalism plays an important role in delivering public value

- 6.4 Our stakeholder interviews suggest that local journalists play an important role in delivering public purposes, through the provision of news and information to citizens. Almost all the stakeholders we spoke to believe that journalism remains the most important function of local media - ahead of providing classified advertising, for example.
- 6.5 Stakeholders say that journalists help to inform the public of local news; they hold public bodies to account by reporting on actions and decisions; and they play an

important role in the public administration of justice, through access to court processes. Their role in local democracy is supported by consumer research - 82% of adults say that local newspapers should hold local government to account.

- 6.6 There is a scarcity of UK academic literature about the democratic role of local and regional media, so Ofcom commissioned a paper from Professor Steven Barnett of the University of Westminster.⁶⁶ The paper argues that it may be productive to attempt a framework for identifying the “democratic deficit” of “lost journalism”. Such a framework attempts to identify tangible areas where journalism attempts to make a real-life contribution to democratic and civic life in four areas: *informing*, *representing*, *campaigning* and *interrogating*.

The impact of local journalism

This framework attempts to move beyond the broad notion of “diversity of voice” to identify tangible areas where journalism makes a real contribution to local democratic and civic life.

Informing: To participate in their local communities, citizens need to be informed about important local issues such as major planning applications, new transport initiatives or proposals to close a hospital wing. People want to be informed – succinctly, accurately and accessibly – about significant events of relevance to them: from court reports, decisions of council committees and key local appointments, to achievements by local people on the national or international stage, progress of local sports teams, or the activities of local amenity groups.

Representing: Local media can also act as tribunes of the people, facilitating the expression of popular opinion (through letters pages, blogs or discussion programmes) and ensuring that the collective view is passed on to key decision makers. Local newspapers or radio stations have historically been important vehicles for large-scale expressions of dissatisfaction over, for example, a major stadium building project or the inadequacy of local hospitals. And local media can be champions of their own localities, drawing attention to particular achievements or inadequate central government investment.

Campaigning: Newspapers in particular have a long tradition of identifying issues directly relevant to their readers, and demanding appropriate action from relevant authorities. At the local level, such campaigns will be attuned to the specific needs of local communities, such as charity appeals, campaigns for action on unsafe roads, or protests against the proposed closure of a local amenity. All local media have traditionally regarded such campaigns as an integral element of their rootedness in the local community.

Interrogating: An integral part of the media’s contribution is its watchdog role, holding public authorities and private corporations to account - from elected council officials, school governors, chief constables and county court judges to major employers and retail stores. Effective scrutiny depends on institutional support and adequate resources: as these become more depleted, local institutions become less accountable and arguably less responsive to the needs of the local community.

Journalism, Democracy and the Public Interest: rethinking media pluralism for the Digital Age (Barnett 2009)

Consumers also value local journalism

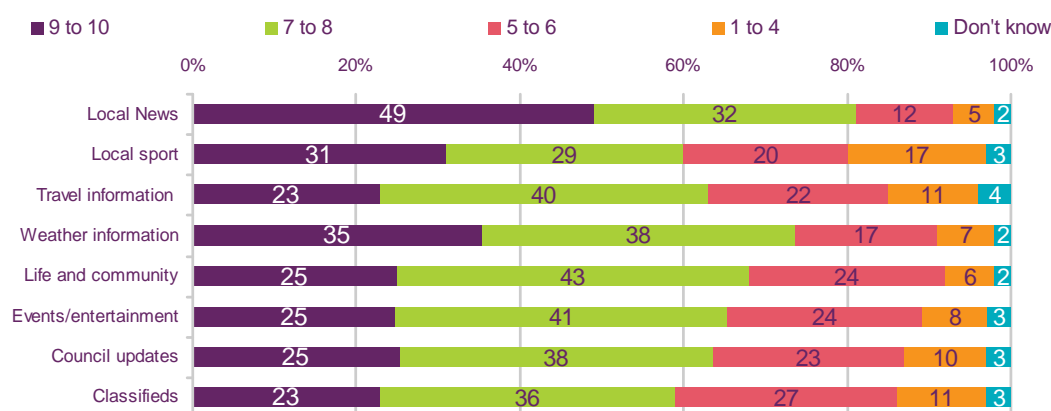
- 6.7 In Section 5 we presented consumer research evidence to suggest that people value local media for a wide range of reasons. Further analysis shows that by far the most important of these uses is for news (see Figure 46 below). Over 80% of consumers

⁶⁶ Barnett, S. (2009) *Journalism, Democracy and the Public Interest: rethinking media pluralism for the Digital Age* [Internet] Oxford.

Available from: Reuters Institute for the Study of Journalism, University of Oxford
<http://reutersinstitute.politics.ox.ac.uk/publications/risj-working-papers.html>

believe local news is important (rating at least 7 on a scale of 1-10). This is higher than any other local content.

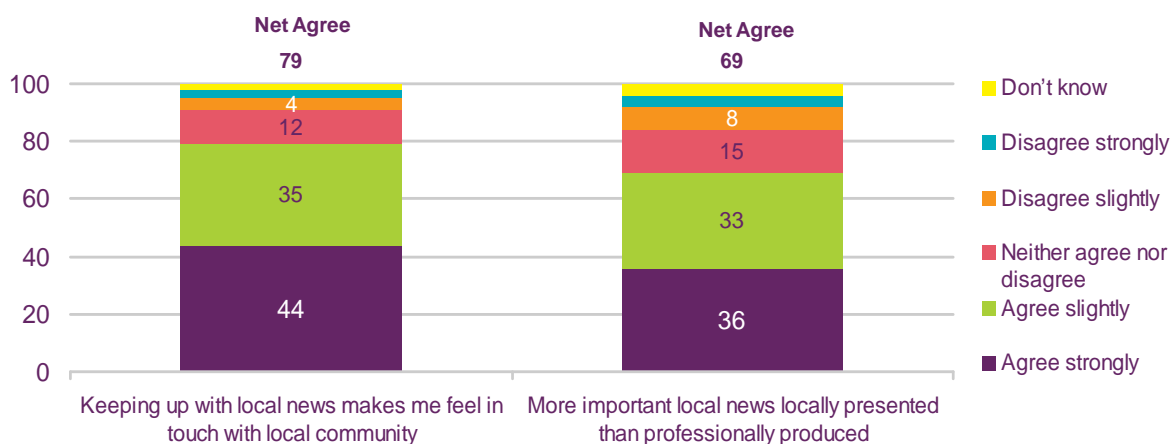
Figure 46: Importance of local content



Source: Ofcom local media research, April-May 2009 Base: All adults use each type of content at least weekly⁶⁷

6.8 Figure 47 shows that almost four-fifths of adults believe that local news makes them feel in touch with their local community, while nearly seven in ten believe that it is more important for their local news to be locally presented than professionally produced.

Figure 47: Consumer attitudes towards local media's role in the community

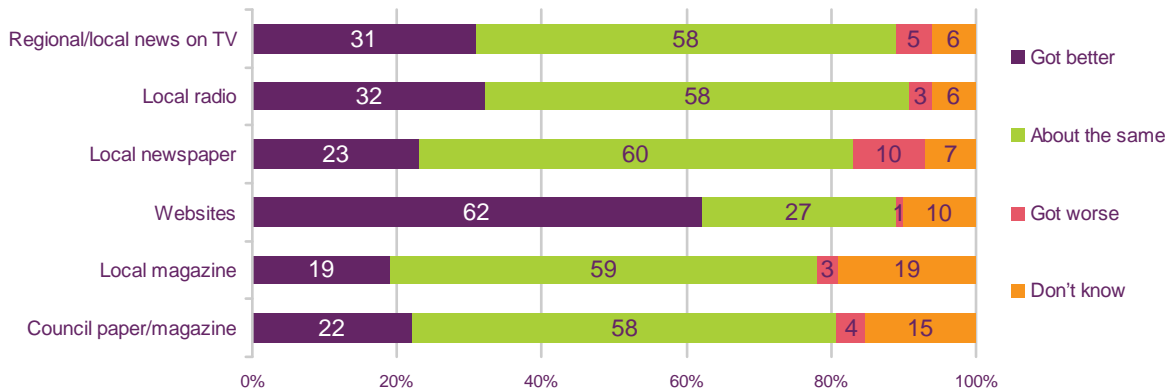


Source: Ofcom local media research, April-May 2009
Base: UK adults aged 16+ (1034)

6.9 Consumers also believe that local media content is improving over time; with nearly a quarter (23%) saying they considered the quality of local newspaper content to have improved over time, compared to one in ten who said it had got worse. It is also clear that many consider the quality of local content available online to have improved, which is consistent with higher use of this platform (Figure 48).

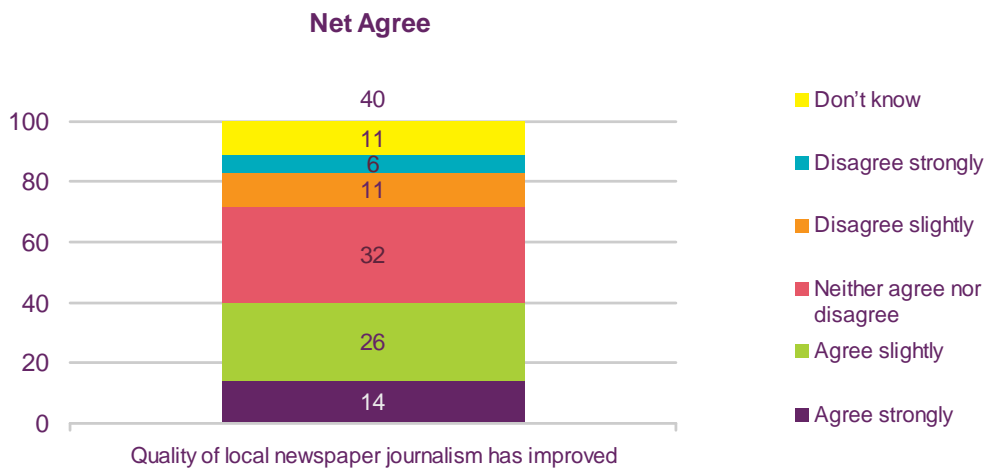
⁶⁷ Local news n=969; Local sport n=514; Travel information n=490; Weather information n=785; Life & community n=640; Events/entertainment n=643; Council updates n=374; Classifieds n=449

Figure 48: Opinion on quality of local content compared to two years ago



6.10 At the same time, two-fifths of adults agreed that the quality of local journalism had improved over time, while just under a fifth (17%) disagreed (Figure 49).

Figure 49: Proportion saying that local newspaper journalism has improved over time

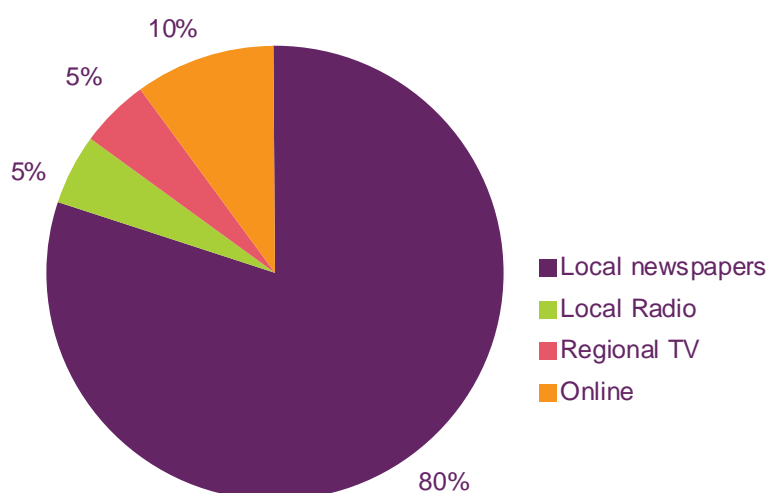


Source: Ofcom local media research, April-May 2009. Base: UK adults aged 16+ (1034)

Local and regional newspapers make a significant contribution to the wider local media ecology

6.11 Although the majority of consumers cite television as their main source of local news, broadcast journalism constitutes only a minority sector in terms of the number of journalists employed. Local newspapers employ the overwhelming majority of local journalists (see Figure 50 below). Newspaper journalists tend to have the closest contact with local public bodies and officials because of their narrow circulation areas, compared to the region-wide scale of television news.

Figure 50: Proportion of local journalists, by platform



Source: ONS; Skillset; Radio Centre; Enders Analysis; OC&C

- 6.12 As the largest media sector in terms of employment, local newspapers also act as the main career entry point for young news journalists, and provide the main training ground for those who subsequently move on to radio and television.
- 6.13 In our interviews with stakeholders there was also widespread agreement that newspapers often set daily local news agendas - and that newspaper stories are followed up and developed by broadcast journalists for TV and radio. Within the local media ecology, local newspapers are the most trusted source of fair and unbiased local news and information, after regional TV, and closely followed by local radio. Other sources score significantly lower.
- 6.14 There is an ever-increasing volume of amateur journalism, in addition to professionally-produced content. But while this is becoming more important within the local media ecology, virtually all the stakeholders we talked to believe that the importance of professional newspaper journalism remains paramount, in filtering and selecting stories and presenting it in the most usable form. As well as reporting the news, journalists also help to reflect elements that bind local communities together, such as coverage of local sports teams and local events.

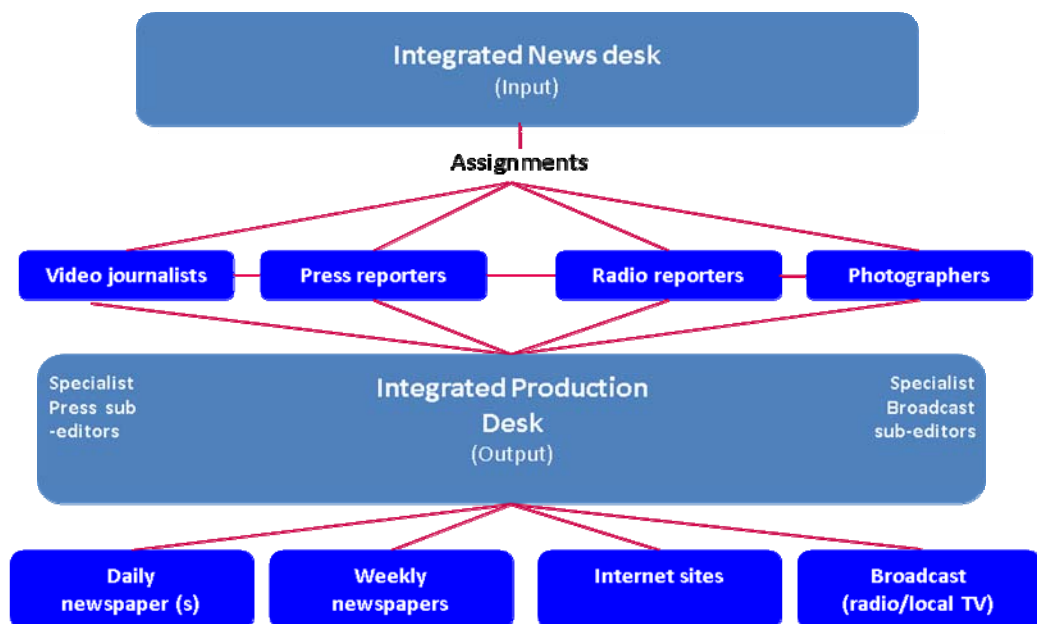
Working practices in journalism have changed as technology converges

- 6.15 With the growth in availability of new digital technologies, most media organisations now publish content on a variety of platforms, including the internet. As a result, news organisations are increasingly choosing to centralise core operations, such as sales, production and administration, around head-office 'hubs'.
- 6.16 The concentration of previously dispersed functions has led to significant cost savings, with smaller teams of head-office sub-editors now serving the differing needs of weekly, daily and online outlets from single news 'factories'. For example, Trinity Mirror's 'Fort Dunlop' hub in Birmingham services the *Birmingham Evening Mail*, *Coventry Evening Telegraph*, *Birmingham Post* and *Sunday Mercury* as well as over 30 weekly newspaper titles. GMG's site in Manchester serves its daily and

weekly titles plus broadcast outlets; and Johnston Press has centralised its Scottish operations in Edinburgh.

- 6.17 There has also been a move by some radio owners towards centralisation of news production in ‘hubs’ to service small groups of non-regional stations. But others have tried and abandoned such an approach. Radio retains the strongest emphasis of all platforms on immediacy – radio stations’ first priority is to break local stories first. Reporters on location will file audio reports into bulletins, while interviews for broadcast are often conducted via telephone.
- 6.18 Changes in working practices are affecting front-line reporters as well as production journalists. There is almost universal acceptance that reporters leave their offices less frequently, relying instead on the telephone, the internet and on source material ‘pushed’ by various public bodies, lobby groups and other organisations. The National Union of Journalists, among others, suggests that this form of newsgathering is a consequence of unrealistic workloads being imposed on staff - and that journalism is suffering.

Figure 51: Diagrammatic representation of integrated newsroom



Source: Currah/Ofcom analysis

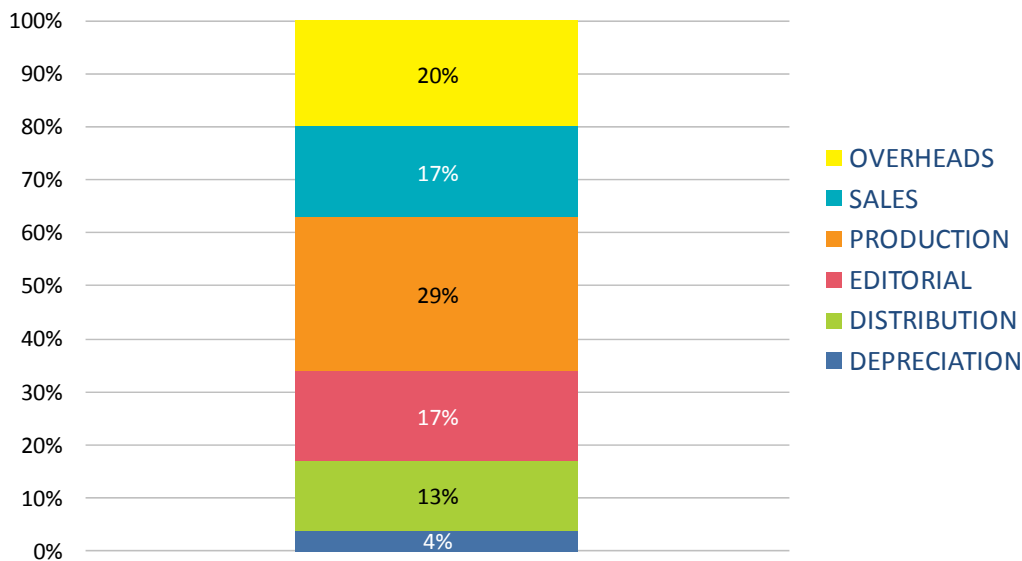
- 6.19 However, some stakeholders have suggested that since journalists now have an unprecedented range of tools and information sources at their disposal, there is much less need for “expensive and time-consuming trips outside the newsroom”⁶⁸ in order to gather the news.
- 6.20 Modern integrated newsrooms are able to produce news across a range of media, using shared resources where appropriate. At the heart of this are integrated newsdesks and integrated production desks (Figure 51).

⁶⁸ Currah, A. (2009) *What's happening to our news* [Internet] Oxford. Available from: Reuters Institute for the Study of Journalism, University of Oxford http://reutersinstitute.politics.ox.ac.uk/fileadmin/documents/Publications/What_s_Happening_to_Our_News.pdf [Accessed 19 August 2009]

- 6.21 Most newspaper groups have said that centralisation and multi-skilling were already well under way before the current recession. These changes represent a logical response to a new multi-platform media environment. There are also tangible benefits from advances in production technology, which have made computer type-setting, direct input by reporters, and digital picture editing commonplace.
- 6.22 Although the internet is becoming increasingly important to newspaper owners facing long-term declines in circulation, it has proved difficult to monetise. So far, the publicly-funded BBC and news aggregators such as Google are having the most success in attracting internet consumers – and both of these supply news free to users. Some local newspapers are exploring new ways of charging for content – for instance, by employing micro-payments or subscriptions for certain types of content.
- 6.23 The growth of the internet is likely to influence the type of journalism being produced. Andrew Currah of the Reuters Institute for the Study of Journalism at Oxford University refers to a digital generation which skims rather than absorbs content. He believes that this has already encouraged publishers of national newspapers to package content into “bite size, multimedia friendly packages that can attract enough clicks to sustain the interest of advertisers” – in his terminology, a ‘clickstream’ system of journalism.

Economic pressures have led to job losses in local newspapers, but other areas appear to be affected more than journalism

- 6.24 In its May 2009 submission to the Culture, Media and Sport Select Committee inquiry into the future of local and regional media, the NUJ stated that more than 900 journalists had lost their jobs on local newspapers since July 2008, with a cut of 20 to 25 per cent in staff levels on local newspapers. The NUJ also concluded that there had been a loss of specialist reporters, who are being replaced by generalists working across a range of daily and weekly titles.
- 6.25 Although the response of most local and regional media firms to the current recession has been to seek efficiencies, there is evidence to suggest that efficiencies have been targeted at specific areas and functions, and that headcount in core news-gathering activities has not been significantly reduced. Almost all the newspaper industry stakeholders approached by Ofcom for this report argued that the provision of local journalism remained their core function, and that they would be harming their own businesses if they allowed it to deteriorate.
- 6.26 Our analysis suggests that the cost of editorial staff accounts for a relatively modest proportion of a local newspaper’s overheads. It shows that editorial costs run at around 17% of typical newspaper costs while production (e.g. printing and newsprint) accounts for nearly 30%.

Figure 52: Cost structure for typical local or regional newspaper

Source: Ofcom estimates

6.27 The Local Media Alliance, a body established to lobby government on behalf of the major local and regional newspaper groups, suggests that while the total number of employees in the industry fell by around 14% between 2007 and 2009, the proportion of editorial staff compared to other staff grew by 3%. Although there have been cuts in the numbers of production staff, newspaper owners say that cuts in front-line reporting staff have been much less severe. Overall, job losses continue to be concentrated on management, sales, administration and production.

There has been less scope to cut the costs of journalism in local radio

- 6.28 All local commercial radio stations have obligations to provide local news. For most stations, this takes the form of short news bulletins, requiring writing and production skills, but less actual newsgathering. Even so, many stations total more than an hour of news per day when all their hourly or half-hourly bulletins are added together.
- 6.29 Analysis of a city local radio station by Oliver & Ohlbaum suggested that less than 10% of the station's operating budget was spent on news content – this figure excludes national news provision, typically supplied by Sky News.
- 6.30 Staffing levels depend on the size of area covered and the size of the broadcast operation. But most of the smaller, music-based local stations will typically employ two qualified radio journalists who will compile, write and read news bulletins on air. Larger stations can be expected to run to three or four full-time staff. GMG's regional stations typically operate with five or six journalists. Its Manchester news hub, serving three stations, employs a dozen journalists and retains reporter shifts for news generation (as opposed to processing). Bauer-owned stations commonly have five full-time journalists - and as many as eight, but never fewer than three.

Many newspaper closures so far have been weaker titles, where alternatives are on offer

- 6.31 As well as job cuts, widespread closures of local newspaper titles have been cited as evidence of a crisis in the local media sector. We examined a number of recent closures to assess the impact on consumers and citizens.
- 6.32 In our analysis, out of 66 title closures between the beginning of 2008 and July 2009, 57 were weekly freesheets rather than paid-for papers (see Figure 53 below) and most of these occupied the second or third position in the local market. Of the remaining nine paid-for titles, almost half were where another publisher had a stronger title on the market, and a third were where the same publisher had other stronger titles.

Figure 53: Local and regional newspaper closures in the UK, January 2008 - July 2009



Source: Newspaper Society, Guardian Online, Press Group Announcements, Oliver & Ohlbaum *
 NB: Some titles published every two weeks

- 6.33 Although weekly freesheets will typically include editorial copy, the primary function of most is to carry display and classified advertising, which may itself be valued by consumers (especially in relation to classified jobs advertising). Many include property and/or motoring supplements. In a typical town or city market, freesheets will operate alongside the single paid-for evening title, which is recognised as ‘the local paper’ in terms of news journalism. In most cases, the owner of the evening paper will also publish their own weekly freesheet, to compete with rivals for pure advertising.
- 6.34 In deliberative research, consumers in markets without a daily title, such as Guildford, valued freesheets more highly than those in markets which did include a

daily. Even there, though, the paid-for weekly appeared to have a higher status than the freesheet.

Content analysis of newspapers does not show evidence of significant changes in content mix

- 6.35 Ofcom carried out analysis of the content of paid-for daily newspapers to gain an indicative snapshot of how it may have changed between 2003 and 2008. The papers selected were two regional morning papers (Titles 1 and 5) and three city evening papers (Titles 2 to 4). The 2008 snapshot is too early to pick up editorial adjustments made as a result of the current recession, but might be expected to reflect any changes caused by structural changes in the last five years.
- 6.36 The survey found little evidence of any decline in the proportion of news content compared to 'other' editorial content (lifestyle, entertainment etc). Pagnations either stayed the same or declined slightly overall - except for Title 1, which changed from a broadsheet to a tabloid within the survey period, effectively doubling its pagination. The total proportion of editorial content to advertising had increased in some cases, but decreased in others – although the survey excluded supplements, which explains the apparent changes in the proportion of advertising in Title 5.

Figure 54: Content analysis of selected newspaper titles, 2003/2008

| | Total Pages | | % News | | % Sport | | % Other editorial | | % Advertising | |
|----------------------------|-------------|------|--------|------|---------|------|-------------------|------|---------------|------|
| | 2003 | 2008 | 2003 | 2008 | 2003 | 2008 | 2003 | 2008 | 2003 | 2008 |
| TITLE 1 (Regional morning) | 36 | 72 | 18 | 17 | 12 | 19 | 46 | 46 | 24 | 17 |
| TITLE 2 (City Evening) | 30 | 30 | 16 | 15 | 13 | 18 | 34 | 29 | 37 | 38 |
| TITLE 3 (City evening) | 48 | 40 | 13 | 15 | 18 | 22 | 36 | 34 | 33 | 28 |
| TITLE 4 (City evening) | 36 | 36 | 19 | 18 | 20 | 17 | 41 | 40 | 20 | 25 |
| TITLE 5 (Regional morning) | 64 | 56 | 20 | 19 | 29 | 21 | 44 | 45 | 7 | 15 |

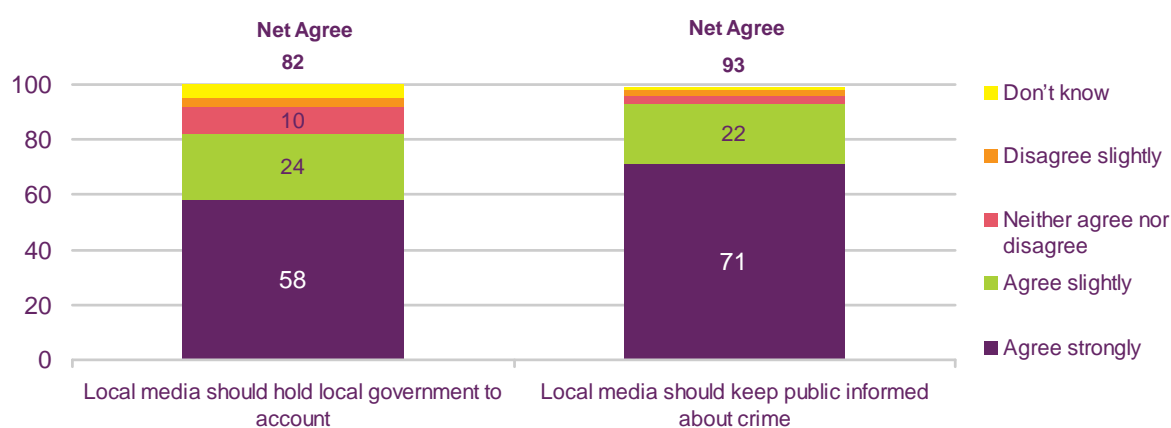
Source: Ofcom analysis

- 6.37 Oliver & Ohlbaum also conducted analysis of newspaper content – in their case in eight different parts of the UK. The range of newspapers assessed took in weeklies, both paid-for and freesheets, daily evening papers; and regional morning papers. It found little evidence of deteriorating quality of news coverage – although there were some changes to the balance of coverage. Although total pagnations had declined in line with falls in revenue, the proportion of editorial content to advertising had actually increased.
- 6.38 In our interviews with stakeholders, editors and newspaper owners recognised an increased use of lifestyle content in their publications but said that the shift simply reflected changing public attitudes and a greater interest in leisure and health. Some of the newspaper owners interviewed said the role of daily newspapers was changing, but this should not be confused with declining quality. There were many more sources for news than ever before, and daily newspapers could no longer expect to be the first platform for breaking on-the-day news. Often, this content would appear first online (often on newspaper sites). The daily paper then needed to 'add value' to the simple facts by including analysis and comment.

Coverage of courts and councils has changed in response to wider shifts in the way public bodies report their activities

- 6.39 The NUJ and others have expressed concern that within general news coverage, there is less attention paid to courts and councils these days – areas formerly regarded as staples for local newspapers. They maintain that these are aspects of news coverage that have particular implications for citizen understanding of democratic processes. This valuable content may have been consciously displaced by (cheaper) generic lifestyle and entertainment features, in order to save money.
- 6.40 Consumer research suggests that the public retains an interest in both crime and council reporting (see Figure 55 below). In addition, more consumers turn to local newspapers as their main weekly source of news on council activities (16%) than to council publications (2%). However, the proportion relying on council publications rises to 10% among monthly users, reflecting their less frequent publication schedules.

Figure 55: Attitude statements about local reporting



Source: Ofcom local media research, April-May 2009 Base: All UK adults aged 16+ (1034)

- 6.41 Ofcom interviewed a number of senior newspaper executives, in addition to the Newspaper Society, about their editorial policies and content. Most acknowledged that there had been some change away from crime and council reporting - especially towards lifestyle and entertainment – but offered explanations in terms of changing public taste and attitudes.
- 6.42 A clear majority of stakeholders – including those from the major newspaper groups - pointed to changes in the way local authorities are run as the main reason why reporters no longer attended routine council meetings. Many councils are now run under a cabinet system and the role of council meetings has changed. One newspaper owner said it was simply not productive to have a reporter “sat in a meeting all afternoon just to get one inside page story”.
- 6.43 On the other hand, councils and other public bodies are much more willing than before to release information online, via press releases, or in response to questioning by telephone. Magistrates’ courts also now tend to publish lists of cases and outcomes, which are often printed in summary in newspapers without any court attendance by reporters.
- 6.44 The Press Association (PA) has announced a ‘public service reporting’ trial, in partnership with Trinity Mirror. Under the pilot, which will take place in Liverpool, PA

will recruit journalists to provide coverage of local authorities and other public bodies. The pilot is intended to determine the level of interest in such a service from local media organisations. PA has suggested to the Commons Select Committee on Culture, Media and Sport that consideration should be given to public funding of public service reporting, in the same way that support is given to public service broadcasting, possibly via a subsidy.

Some stakeholders have expressed concern about the impact of activities by local authorities and other public bodies on commercial local and regional media

6.45 Some stakeholders expressed concerns to us about interventions by local authorities and other public bodies in local media, particularly in relation to publishing activities. These included:

- Concern at the practice of taking advertising revenue from third parties (potentially impacting the long-term viability of the independent commercial local media sector by competing with it for advertising revenue),
- Concern that local councils were reducing advertising of statutory notices and job adverts in independent local media, by shifting expenditure to their own publications and websites.
- Concern that residents may mistake local authority publications for independent local media that might be more objective in reporting council issues. This particular concern has been noted by Government in the *Digital Britain Final Report*: “While local authority information sheets can serve a useful purpose for local residents and businesses, they will inevitably not be as rigorous in holding local institutions to account as independent local media”.⁶⁹

6.46 However, some local authority stakeholders have expressed concern at low levels of awareness of the role of local authorities among residents; for example, knowledge of which basic local services (such as refuse collection) councils are responsible for. Some stakeholders see council publications, containing information about council activities, as a way to address this knowledge gap, and strengthen democratic processes, given that citizens need first to know who is responsible for local services, before they can hold those institutions to account.

6.47 A recent audit by the Newspaper Society⁷⁰ of 436 local authorities across the UK suggested that an increasing number of councils are publishing their own newsletters. Of the 199 English authorities that replied to a Local Government Association survey, 32% said they published on a quarterly basis, with just 4% publishing weekly or fortnightly. Councils have said that they are filling a gap in local news and information no longer filled by paid-for titles⁷¹

6.48 Local authority publications can be in a variety of formats, including magazines and newspapers, and some have suggested that some titles appear to have been positioned as rivals to local commercial alternatives. Some of these publications have

⁶⁹ p.154 *Digital Britain Final Report*

⁷⁰ Newspaper Society, see: <http://www.newspapersoc.org.uk/Default.aspx?page=4372> [4 August 2009]

⁷¹ Local Government Association (LGA) (2009) *Survey of local authority newsletters / magazines 2009* [internet] London. Available from: LGA <http://www.lga.gov.uk/lga/aio/1857732> [Accessed 19 August 2009]

a distribution of 100,000 copies or more, because they are typically delivered to all residential addresses in the local authority areas.

- 6.49 This high reach, however, means that local authority publications may be an effective way of getting information about the role of councils and council services to the community, especially to groups that may not have online access.
- 6.50 In London, some local authorities that have invested in their own newspapers say that these are needed because of the inadequacy of commercial weekly titles. They say their self-publication of notices and job adverts - and the seeking of third-party advertising revenue - provides better value for council tax payers than taking out advertising in commercial local media. One stakeholder rejected suggestions that the council paper was driving out commercial competition by pointing out that the local newspaper had closed its only office in the borough seven years before the launch of the local authority publication.
- 6.51 Some councils are exploring other ways of communicating with their residents. In Kent, the county council has committed £600k towards a two-year pilot scheme for Kent TV, a web-based news and information channel produced by an independent production company, Ten Alps. Although the production company retains editorial control, the primary function is to publicise council activities and inform Kent residents of services and their rights.
- 6.52 Although newspaper groups, among others, have expressed concern at the impact of council publications, we note that in some cases, local authorities pay for their council newsletter to be printed and distributed alongside commercial freesheets. This avoids the local authority having to incur the expense of setting up its own printing operation and distribution network.
- 6.53 In our interviews, the view emerged that large numbers of local journalists are now being employed by local authorities, both as writers for council newspapers and as public relations officers. There was a belief that experienced newspaper journalists are being attracted by jobs in local authorities because pay and pensions are often better than on local papers.
- 6.54 In the *Digital Britain Final Report*, the Government asked the Audit Commission to undertake a specific inquiry into council publications, although the commission recently stated that it felt that this task fell outside its remit and capabilities.

Concerns have also been expressed about training and freelance journalism

- 6.55 The NUJ has identified what it sees as two other potential threats to professional journalism as a result of current difficulties: training and the employment of freelance staff.
- 6.56 The union suggests that training budgets are being cut as media companies struggle to mitigate the loss of advertising revenue, and that this may affect quality in future. This could affect all media platforms because many journalists learn their trade on newspapers before moving onto other outlets. Evidence to support this assertion is contradictory – the National Council for the Training of Journalists had its highest exam entries for two years in March 2009 – although sharp falls are expected from this year and it is unclear how many places are fully funded by the industry. The union is among the groups which have advocated tax breaks in return for investment in the training of journalists.

- 6.57 The NUJ also cites the loss of freelance jobs within the industry. It describes freelancers as an important resource for local media industries – particularly those who are specialists or who have particularly strong local contacts.
- 6.58 The Government has stressed the importance of training opportunities in local and regional journalism, including entry-level positions for journalists new to the profession. It sees opportunities to create regional or local training hubs in collaboration with industry and with education and training bodies in the public sector.

Creating a healthy and viable local and regional media sector

- 6.59 The evidence, in this and in previous sections, suggests that local and regional media are critical to informed and active citizenship, while consumers value a variety of local content for their personal interest. Despite this continued interest and recognition of the importance of local issues, the combination of structural and cyclical pressures suggests that some form of action may be required to help the sector manage these challenges.
- 6.60 Our research and evidence-gathering suggests that the maximum contribution to democracy may be achieved by the existence of the widest possible range of content, delivered across a range of platforms, under different ownership models and evolving business models, which are themselves sustainable.
- 6.61 We believe that a healthy and sustainable local media sector that delivers consumer choice and public value may possess the following characteristics:
- It will provide a choice of sustainable and quality local and regional content, covering news, information and community life.
 - Local and regional content will be available across traditional media platforms (TV, radio, newspapers) but also through the internet and community media, reflecting the different ways in which different groups access and use content.
 - Local and regional content will be delivered by a healthy and vibrant commercial media sector, but also by organisations employing a range of different ownership models, including public sector and not-for-profit, delivering public value to communities throughout the UK.
 - The sector will be underpinned by quality innovative grass-roots local journalism which provides information and analysis to support citizens in holding actors in the local political process to account.
- 6.62 Earlier this summer, we consulted on our proposed recommendations to the Secretary of State to remove the local radio ownership rules and to relax the local cross-media ownership rules. We are currently considering the responses, and will publish a final statement in the autumn.
- 6.63 In the following sections we outline the other actions we are undertaking, as part of our duties towards citizens and consumers, which we believe will support the sector in delivering sustainable quality local media, valued by both citizens and consumers:
- Our immediate priority is to ensure the continued plurality of regionally-based television news. Our response to the DCMS consultation, published alongside this report, endorses the view that pilots of independently-funded news consortia are the most effective means of achieving plurality alongside the BBC, while

potentially providing an important platform for the future development of more local services, including local TV.

- Spectrum, to be made available after digital switchover, could help to deliver a new wave of local TV services. We aim to make the spectrum available in a way which most effectively satisfies demand. We propose to consult on the potential uses of this spectrum in due course. This will enable decisions on the future of local TV to be made with all the relevant evidence and options available.
- We have already published proposals for reforming the regulation of commercial radio to allow local radio stations the flexibility to adapt economically to market conditions while maintaining localness.

6.64 We conclude the report by discussing some of the wider challenges and opportunities that the local and regional media sector faces at a time of changes and convergence, and which may need to be considered in the future.

Section 7

Sustaining plurality in regionally-based television news

Introduction

7.1 In this section we set out our analysis of the specific issues facing the provision of an alternative regional television news service to the BBC, and examine how the Government's proposals for independently funded news consortia (IFNCs) could work in practice.

The key points covered in this section are:

- Regional television news is valued by citizens and consumers. Plurality of regional news is important, and there is a desire for a more localised news service on the main channels.
- However, the system that has to date provided a commercial regionally-based TV news service is under considerable pressure. Under current conditions, it appears unlikely that the existing system of regional news provision on Channel 3 will be able to continue beyond 2010.
- To maintain plurality of regional television news new sources of funding will be required. If public funding is used then it would need to be competitively allocated, deliver public service objectives and value for money.
- One way to achieve this is to build on the strengths of existing local and regional news gathering through a new system of independently funded news consortia. These could help sustain a continued plurality of regional news. This approach was set out in the Government's *Digital Britain Final Report*.
- Under Government proposals, news consortia could provide an enhanced role by delivering additional localness and making news available on a cross platform basis.
- Such an enhanced option could see news consortia supporting other local media providers. The news gathering of the consortia could complement existing operations, from local television to newspapers, and radio to purely online providers. It could also be linked to a digital content service that enabled consumers and other bodies to have access to high quality local and regional video news.
- The costs of delivering news through consortia would depend on the level of news provision desired.
- Funding options are the subject of a DCMS consultation 'Sustainable independent and impartial news; in the nations, locally and in the regions'⁷². Ofcom has submitted its response to the consultation alongside this report.

Regional television news is valued by citizens and consumers and is often the main source of news about the nations, regions and localities

7.2 Research conducted for the Second PSB Review⁷³ demonstrated that viewers believe that news, not just for the devolved nations but also for the English regions, is

⁷² Sustainable independent and impartial news; in the Nations, locally and in the regions, DCMS, 2009

the main priority in television for the nations and regions. The research demonstrated that news is the genre in which plurality is most important to audiences in the devolved nations.

- 7.3 Television is an important provider of both regional and local news which combines near universal access with significant reach and impact. Television is also the main source of local news for consumers, with 49% citing it to be their main source. This is 25% ahead of newspapers which were the second highest main source of news.⁷⁴
- 7.4 Ofcom research for the Second PSB Review⁷⁵ also found that audiences value plurality in public service broadcasting. The research showed that 76% felt that news about their own nation/region should be available on more than one of the main channels. The majority of people (of all ages, socio-economic groups and ethnicity) thought that it was important to have an alternative provider to the BBC and valued plurality for its ability to provide choice, and a range of voices, and helped to meet the need to cater for different tastes and to provide different viewpoints.

Consumers value local news as well as regional news

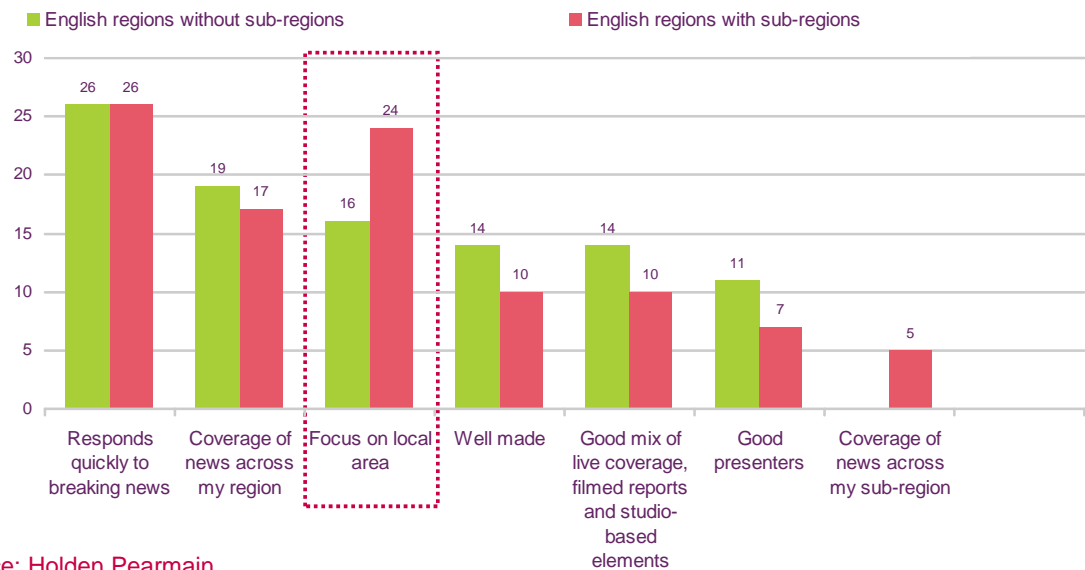
- 7.5 Regional news is important but local news is also valued by consumers. Research for the Second PSB Review⁷⁶ found that 78% of people would like the main channels to show programmes that provide local news. This was supported by research which discovered that 'focus on my local area' consistently ranked highly as a priority for the nations and regions news service.
- 7.6 This research also asked consumers which types of content they would want to preserve on the main TV channels if limited funding meant that not every type could be provided. News was recognised as the highest priority with 92% of consumers stating that it needs to be shown on the main TV channels. Local news and information on the main TV channels was considered to be a priority by 66% of consumers. Regional news scored higher still with 74% of consumers saying that it needs to be shown on the main TV channels. Regional television news is therefore a priority for consumers but there is evidence to show a desire for a more localised news service on the main channels.
- 7.7 The existing service allows for greater localness to be delivered through sub-regional broadcasts included in the existing regional television news. Consumers who benefit from this increased localness in their regional news provision value consider it to be an important part of the service. Figure 56 shows that in English regions with a sub-region the news's ability to portray local events is held by consumers to be the second most important element of the news.

⁷³ Ofcom's *Second Public Service Broadcasting Review*, Phase 3, *Putting Viewers First*, Ofcom, 2009

⁷⁴ See section 4 above

⁷⁵ ⁷⁵ See Ofcom's *Public Service Broadcasting Review Phase 1*, Annex 5: *The Audience's Views on the Future of PSB*, Quantitative survey amongst 2,260 people aged 16+ in the UK undertaken by Ipsos-Mori, Oct-Dec 2007 and also Ofcom's *Public Service Broadcasting Review Phase 2* annex 16: *Regional News*. A quantitative report by Holden Pearmain, among 3706 aged 16+, 2008.

⁷⁶ Ibid.

Figure 56: ITV Regional news assessment for English regions

Source: Holden Pearmain

7.8 However the provision of more local news through sub-regions is mixed across the UK. Currently some regions have sub-regions while others do not. This is a result of transmitter locations being determined by geography and the way that the Channel 3 nations and regions service has developed over time.

The current system for regional television news provision is under threat

7.9 Despite the popularity of regional news, there is substantial commercial pressure on the ITV network. This was highlighted in Ofcom's Second PSB Review⁷⁷ which examined the significant pressures on free-to-air commercial broadcasters from both structural and cyclical changes. The PSB Review concluded that the costs of public service status outweigh the benefits to Channel 3 licensees before digital switchover is complete, and in some nations and regions it will be before then.

7.10 This is based on based on best estimates of the benefits and costs of PSB status – which are difficult to calculate as they are, in part, opportunity costs as well as direct costs. There are also a number of intangible benefits that are much harder to quantify, and can vary depending on who holds a particular licence.

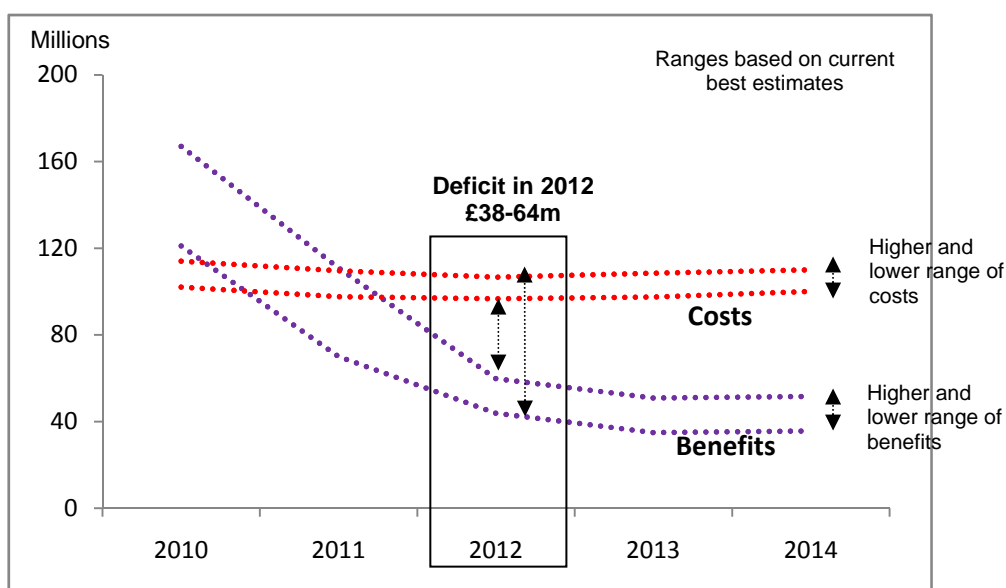
7.11 For these reasons, it is important to note that the results of this analysis need to be treated as indicative only. They are shown below in the form of a higher and lower set of ranges for both the costs and benefits of PSB status.

7.12 However, the calculated timing of when the licences will fall into deficit and the scale of the deficit are considered a reasonable estimate based on the analysis we have undertaken.

7.13 As set out in Figure 58 below, we estimate that the Channel 3 network is likely to be in deficit by 2011, and the deficit will reach £38-64 million in 2012.

⁷⁷ For more information see our *Statement on short term regulatory decisions* at http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/

Figure 57: Cost-Benefit of PSB Status for the Channel 3 network

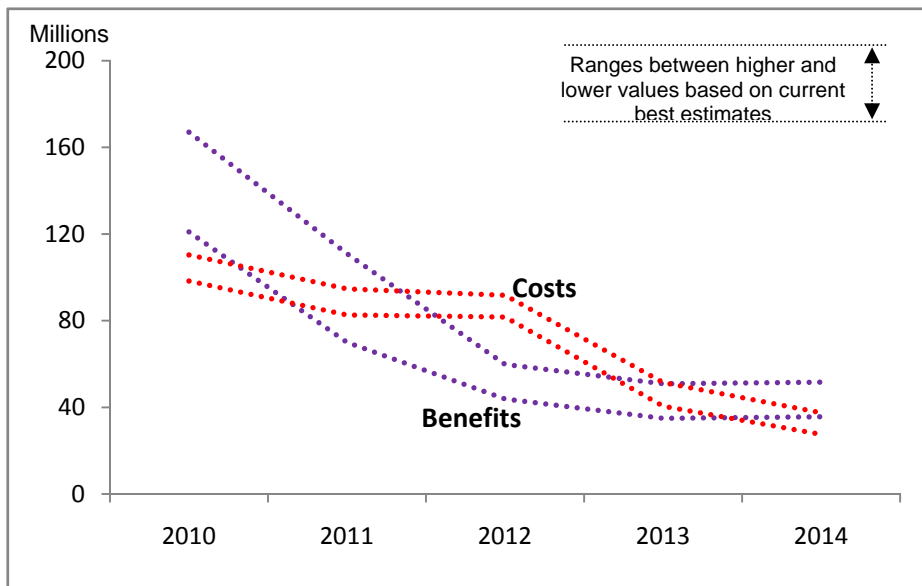


Source: Ofcom

- 7.14 The single biggest PSB cost attributable to the Channel 3 network by far is the production cost of Regional News which is estimated at £68 million in 2010, and projected to be £72 million in 2012, based on current production costs. These costs are after the regulatory changes made in the PSB Review.⁷⁸
- 7.15 It is notable that the production cost of regional news is very similar to the scale of the opportunity cost deficit across the Channel 3 network.
- 7.16 The hypothetical scenario modelled in Figure 58 below assumes public funding for news consortia in one English region and two nations commencing late 2010, and full funding commencing in early 2013, as suggested by the timeline for full funding in DCMS consultation which we have responded to separately.

⁷⁸ This data is based on the figures supplied by the ITV regional broadcasters

Figure 58: Hypothetical view of Cost-Benefit of PSB Status for the Channel 3 network - with phased public funding for news consortia



Source: Ofcom

- 7.17 As Figure 58 shows, there are likely to be transitional financial issues for the Channel 3 licensees until the funding for a full roll out of news consortia is secured.
- 7.18 At the time of the Second PSB Review, the BBC and ITV plc entered into discussions to create a partnership which might help address the costs of regional news for ITV plc. However BBC partnership proposals to ITV plc to date have not been sufficient to address the funding challenge.
- 7.19 Detailed discussions between the BBC and ITV plc placed the value of support at £1.5m in 2011, rising to £5.7m in 2014 and £7.1m in 2016, when a greater range of studio sharing is possible. These savings contrast with the overall production cost of Channel 3 regional news projected to be £68m in 2010 and so are not enough to be a complete solution to funding regional news on Channel 3. They have therefore not been included in the analysis above.
- 7.20 Should a solution to the funding and delivery of regional news not be found then there is a risk that ITV plc may surrender the public service broadcasting licence it operates through its wholly owned subsidiary ITV Broadcasting Ltd and run its ITV1 service as a fully commercial channel. Should this occur this would raise significant concerns about the future of regional news. It is unlikely that the current pattern of regional news, which consumers value for its ability to provide regional and local news as well as plurality to the BBC's coverage, would continue.

The Government's *Digital Britain* report has outlined proposals for independently funded news consortia (IFNCs)

- 7.21 Proposals for news consortia were developed in the Government's Digital Britain Final Report which describes them as "a joining of interested parties who will provide a more ambitious cross-media proposition and enhanced localness compared with the current commercial television regional news; but which, to maximise audience

reach, will broadcast in the regional news slots in the schedule of current Channel 3 licensees.”⁷⁹

- 7.22 The Government’s Digital Britain report stated that, subject to the outcome of consultation, “the Government is minded to mount three pilot IFNCs before 2012, aiming to begin in 2010 – one in Scotland, one in Wales (where S4C have already done work to develop a related initiative) and one in an English region which would be the most likely to demonstrate true contestability, without involving the current Channel 3 incumbent licensee. One of the objectives of the pilots will be to test the scope and scale of commercial funding.”⁸⁰
- 7.23 The importance of regional news and sources of top-up funding to support it have been subject to a DCMS consultation on ‘*Sustainable independent and impartial news; in the nations, locally and in the regions.*’
- 7.24 In this document we have set out further research on news consortia in regards to our duty to ensure the delivery of public service broadcasting. This analysis draws on the Government’s Digital Britain final report. This work does not pre-judge the outcomes of any work that the Government is undertaking in regard to regional news. We have separately responded to the DCMS consultation and await Government’s decision on how it wishes to proceed in regards to regional television news.

Based on the Government’s proposals and analysis conducted during the PSB Review, news consortia could fulfil a number of roles

- 7.25 The main role for news consortia would be to create regional television news for broadcast. To maximise reach and impact, the service would most likely be broadcast during the schedules of the existing Channel 3 licensees, helping to ensure plurality of regional television news in the English regions and national services in Scotland, Wales and Northern Ireland.
- 7.26 Consortia would be appointed on a contestable basis, with an awarding and governing body that ensures output, accountability and quality control. Consortia could be eligible to receive public top-up funding; the suitability and options for this are currently being consulted on by the DCMS.
- 7.27 News consortium members would not be limited to existing television news providers, newspaper groups or other news-gathering agencies. Although anyone wishing to bid would need to demonstrate a track record of news delivery.
- 7.28 A range of organisations might be interested in joining consortia, including incumbent Channel 3 licensees, other news broadcasters, regional newspaper groups, local television stations, picture agencies and independent producers. Since the Government’s *Digital Britain* report, a number of interested stakeholders have signalled their interest. These include, among others, Guardian Media Group, ITN, STV, Ten Alps, The Belfast Telegraph, Newsquest, DC Thomson and Johnston Press.
- 7.29 News consortia structure and membership could vary by region, depending on the characteristics of local media markets and the level of news-gathering and news delivery expertise available. There is no one-size-fits-all model.

⁷⁹ *Digital Britain Final Report*

⁸⁰ *Digital Britain Final Report*

- 7.30 Consortia created news could help meet consumer demand for more local news by providing a greater level of localness than the existing system. This could be through more localised television news, greater availability of online news or any other approach which delivers reach, impact and value for money. The details of any more localised news service would depend on the region and the consortia's resources and capabilities.
- 7.31 The news gathered by the consortia could also be delivered online. Models for this could be explored by the consortia; for example some might wish to provide consortia generated content through their own online sites; others may wish to create a new dedicated service. Content could be provided free to not-for-profit or education users.

Broadcasting the news consortia output on Channel 3 could preserve the reach and impact of the existing national and regional news services

- 7.32 The PSB Review identified that Channel 3 would be the most effective carrier for nations and regions news due to its existing reach and impact. However the Channel 3 licensees are only one option for broadcasting a regional television news service, for example Channel 4 may provide one such alternative.
- 7.33 Existing Channel 3 licensees may wish to be part of news consortia and would need to be assured of the quality of the output. There will also need to be an ongoing relationship between the nations and regions news services and the appointed national news provider for the Channel 3 licensees. Currently the appointed news provider, ITN, has access to the regional output of ITV's news service for stories of UK-wide significance and maintaining these links will be an important part of ensuring ongoing news provision at a national and regional level.

News consortia could maintain the reach and impact of the current regional news system whilst providing a more localised news service

- 7.34 Government's Digital Britain raised the potential of an enhanced level of localness beyond the existing regional news service. How this could be achieved given the varied nature of the nations and regions may depend on the nature of each consortium and the characteristics of the nation or region. There is unlikely to be a standardised approach to news consortia across all nations and regions.
- 7.35 As television is the main source of regional and local news for the majority of consumers, it has been the starting point in our analysis of how to deliver greater localness. Television has near universal take up and the current service provided by the Channel 3 licensees provides regional news that has reach and impact. This is reflected in the significant numbers of consumers who list it as their main source for both regional and local news.
- 7.36 The current Channel 3 regions are:
- England: Border/Tyne Tees, NW England (Granada), Yorkshire, Central, Anglia, Meridian, West/West Country, London.
 - Northern Ireland
 - Scotland: Central, North. Scottish viewers in the border region have their regional news provided by ITV
 - Wales

- 7.37 Viewers in each of the current regions may benefit from the incorporation of additional smaller sub-regions within the overall news service, each with its own dedicated news-gathering capacity and opt-outs for stories of particular local interest. These sub-regions could provide a more local news service which is supported by the regional news service.
- 7.38 Taking Scotland as an example, STV already provide a greater level of localness than initially required by their licences. The Scottish licences require news for two regions, North and Central, however STV deliver additional five-minute news opt-outs for two additional sub-regions. It is also technically possible to provide a Scottish Borders service, which could be supplied from Scotland rather than from North East England. Another option would be to consider extending news provision in the Highlands and Islands.
- 7.39 In principle it could be possible to introduce more localised services from around 50 locations, although these do not all necessarily map readily onto centres of population. The extent to which enhanced localness can be delivered within the Channel 3 television regional news service depends on the location and characteristics of the current DTT transmission network. Consortia may also wish to explore other methods of providing increased localness, for instance, video content over broadband.

News consortia could help to deliver regional and local news across a number of platforms

- 7.40 The reach and impact of regional news on television is important and contributes to TV being the main source of regional and local news for consumers. However viewing is fragmenting across different platforms and so cross-media provision of regional and local news is increasingly important.
- 7.41 A consortium creates a set of news stories used in the regional news broadcasts. This news-gathering is an opportunity to support wider local media, as it may result in more content being gathered than is used in the daily regional news television programmes.
- 7.42 If appropriate consortium members could use this video news to support their own news delivery. For example, a local newspaper consortium member might wish to enhance their local news video on their website with consortia material. A local radio consortium member might choose to use the news gathered by the consortium as the basis for their local news bulletin.
- 7.43 This video news could also be expanded by any consortium member's own local news service. They could choose to develop the stories further through additional editorial comment, following up with greater investigative journalism, or by providing expanded interviews.

Spreading the news

- News consortia members could share content between themselves; but there is the scope to share content more widely.
- An enhanced service that sought to provide greater cross-media news could be supported by a digital resource which allowed organisations and individuals outside the consortia access to the news.

- Neighbouring consortia might be interested in other consortia's content where their news gathering overlaps. A simple means of accessing news content may cut down costs for consortia by sharing news of common interest. It might also facilitate sharing content with the appointed news provider for the Channel 3 licensees.
- Digitally stored news could be made accessible to non-consortium members, for example through a service such as the iPlayer which would allow consumers to catch up with news bulletins online. Academic institutions and schools could benefit from being able to stream or download content free of charge for use in lessons and lectures. Community groups may wish to share footage or repurpose content for their own public objectives.
- Any sharing arrangements would need to be explored further. It may not be suitable to trial content sharing during the proposed pilot phase as the pilot nations and regions may not be adjacent. However some elements of this could be explored, for example the sharing of content with community groups and educational bodies.
- There are already a number of existing services which serve as models for this kind of digital content sharing. One example is the BBC iPlayer, which could give consumers online access to regional and local television news. Additional content not used in the main bulletins could be provided as additional programmes online, or left to consortium members to develop as appropriate.
- Another example is NewsFilm Online (www.nfo.ac.uk). This provides access to selected news from the ITN/Reuters archive for staff and students of subscribing UK colleges and universities. NewsFilm Online has a searchable database of news footage which includes appropriate tagging and descriptions which allow for easy access to the material, and a description of the material before download.
- Commercial exploitation of content might be possible, assuming that a suitable rights arrangement can be developed. If appropriate, content could be sold on to other news agencies or news providers who seek access to the output of the news consortia.
- A commercial model could be developed separately, allowing news agencies or news providers to purchase material in a manner similar to existing news footage services, such as ITN's ITN Source (www.itnsource.com).

News consortia could support other initiatives such as training

- 7.44 The Government's *Digital Britain* report identifies an opportunity for news consortia to undertake commitments to multi-media training. Consortia could therefore provide additional opportunities to support local education or community groups by offering training to those groups who wish to broaden their multi-media skills. This could be over and above any other training already provided by the individual consortium members.
- 7.45 Other initiatives might be proposed by news consortia as part of the contestable process and could be explored in any pilot process.

The cost of news gathering will depend on the model adopted by each consortium

- 7.46 The production cost of regional television news for the Channel 3 licensees is set to rise to approximately £68m by 2010. This provides a useful indicator for the potential cost of news consortia.

- 7.47 We have also conducted some additional analysis on the likely costs faced by a hypothetical new entrant news consortium. This suggests that consortia which lacked access to other news gathering assets would have to replicate considerable elements of the existing service, and so might incur a similar level of costs to the current regional television news service.
- 7.48 Refining these cost estimates could be an important element of a contestable pilot process as one of the key aims of the pilots is to test alternative methods of providing regional news to the current model. They may need to consider what would be a reasonable margin as part of any pilot procurement process. Pilots could also test the wider commercial elements of news consortia, for example the level of top up funding and any commercial arrangements such as content sales.
- 7.49 The cost of a news consortium will also depend on the skills and capabilities of the consortia members and the assets they are willing to contribute. This would be subject to any commercial agreements consortia members might make between themselves. An example of this would be if a news consortium requires a studio and where the BBC or a consortia member may be willing to share assets already in place.

The amount of localness in the news is also important to determining consortia costs

- 7.50 The level of service required from news consortia will also be an important factor in determining the overall cost. Earlier in 2009, we outlined two levels of service at the Government's *Digital Britain* Local Media summit:
- For a basic option, which replaces the current regional television news service, costs were estimated to be approximately £40m to £60m. The upper range is similar to the current costs of regional television news of £65m if it were reduced by the potential partnerships with the BBC. There is scope for news consortia to develop lower cost models of news provision through greater efficiencies or new working practices.
 - An enhanced option could deliver an increased level of localness beyond the current regional system and greater cross-media delivery of news. This was estimated to cost approximately £60m to £100m.
- 7.51 The main reason for the increased costs of the enhanced option is the price of additional news gathering to support more local regions. This is determined by the level and depth of the local coverage and in practice would also depend on what assets the news consortia would be able to share, including the assets they have in place already. There could also be further infrastructure costs, for example if local news consortia chose to provide a studio in each local area or need additional broadcast vehicles.
- 7.52 Based on existing incumbents' analysis, increased localisation costs could be in the range of approximately £400,000 to £600,000 per local area per year, depending on the amount of local news desired.
- 7.53 These costs assume a five minute local news opt per day to be broadcast as part of the wider regional television news. Should longer local opt-outs be desired, for example 15 minute long local news broadcasts, then the costs would likely be greater as there are substantial differences between producing five and 15 minutes of content. A 15 minute opt may include live on location interviews, studio features or

greater analysis and comment. This requires a greater level of news gathering and technical capability, for example more editing staff supported by more sophisticated editing equipment.

- 7.54 This is one approach to delivering an enhanced level of localness over the current service. Other models could be proposed by consortia.

A hypothetical news consortia could replicate the current regional news service, with some additional localisation, for a broadly similar cost

- 7.55 Our analysis of the likely costs faced by a hypothetical new entrant news consortium is based on a number of assumptions. These include:

- The new service is intended to replace the current service to a similar level of quality
- The consortia exists in a generic region rather than any particular existing one
- The consortia would have no existing members or partnerships and so no access to existing assets or skills as outlined above
- The consortia will provide a more localised news service for two television sub-regions. This would consist of six minutes of local area news within the half hour evening news bulletin

- 7.56 A new entrant faces two types of cost. First the capital and launch costs of setting up the business and then the ongoing costs of delivering the news service.

- 7.57 Capital and launch costs are needed to replicate much of the existing regional news technical infrastructure. This includes buying or leasing property, IT, newsroom systems, editing suites, etc. Capital costs and launch costs are a significant upfront commitment and estimates are that this could be £4m to £6m, assuming no existing assets.

- 7.58 This suggests that a news consortium contract should be of sufficient length to spread the costs. A short contract could result in significant upfront costs and may see the consortium completing a contract with equipment that is normally expected to last five years or more.

- 7.59 Ongoing costs for news consortia include staff costs along with other costs such as property leases, utilities, bandwidth and data charges and travel costs. A new entrant looking to recreate a service similar to today could reasonably expect ongoing costs of approximately £3m to £4m per year.

- 7.60 Therefore if news consortia were to operate on a three year contract then total cost could be between £4m and £6m per year. This represents the spreading of the capital and launch costs over the life of the contract.

- 7.61 This model represents a level of quality similar to the current regional news service. A change in working practices or other savings could be made in a number of areas, although these may limit how the consortia operate. These could include:

- A greater use of multi-skilled staff. There are advantages and disadvantages to using multi-skilled staff. For example a single video journalist may be able to provide video news from a location, but there are logistical challenges in being

responsible for filming, editing and reporting which means that a two person team can respond more quickly.

- Reducing the local presence of the news consortia. This model assumes that an office and studio is maintained at the regional centre and within two local areas. It would be possible to reduce costs by providing a virtual service to the two local areas, for example by shooting all footage locally but returning to the central office to edit it.
- Making greater use of pre-recorded news, perhaps only offering live news from the main regional studio. This would reduce costs as the consortia would not need satellite news trucks and reception equipment but would limit the consortia's ability to deliver breaking news.

7.62 These changes could reduce costs but may deliver a less high quality service. The savings outlined above could reduce costs to approximately £3m to £5m capital and launch costs and £2m to £3m per year in ongoing costs.

This is only a hypothetical approach and consortia could reduce these costs by taking advantage of efficiencies with existing business and economies of scale

7.63 This hypothetical model provides a high level estimate, but a true consortium entering the contestable process may be able to take advantage of a number of efficiencies to reduce capital and ongoing costs further. This depends on the commercial arrangements that consortia members undertake between themselves.

7.64 Consortia including members who choose to provide assets such as property space, studios, asset management systems or satellite trucks may be able to maximise the value of these to the consortia. Alternatively a consortium which already included multi-skilled journalists may be able to provide staff it was previously using to create its own footage.

7.65 A consortia providing news to a single region, as outlined above, cannot take advantage of any economies of scale that might come from providing news or television content in multiple regions. It may be possible to share infrastructure such as satellite trucks or negotiate volume discounts for equipment if a consortia provides the news in multiple regions or in conjunction with other news providers.

The actual costs and working practices of consortia can be tested in the pilot process

7.66 The pilot process proposed by the Government will establish greater clarity around the potential costs of news consortia. The Government has indicated that it is minded to undertake three pilots. By undertaking multiple pilots the costs for multiple regions can be determined and used to assess the likely cost should any future roll out of news consortia take place across the UK beyond the pilot regions.

7.67 As pilots are likely to vary by region and by consortia, they could be an opportunity to test different models of news gathering and delivery presented by the consortia through the contestable process.

7.68 One aspect of this could be to increase the localness of news delivery in the pilot regions. For example:

- In Wales – a primary focus on delivering a national service for Wales but with exploration of sub-regional opt-out services for north and south Wales.
- In Scotland – the delivery of an enhanced service to cover the four regions currently provided by STV and also the option for a Scottish Borders service delivered from Scotland and a new service for the Highlands and Islands.
- In the English region – this would depend on the region selected and the relevant transmitter pattern, but it could possibly provide an improved service with additional sub-regional areas.

7.69 Other aspects of cross-platform provision can be explored in any pilots. For example:

- A pilot which includes a newspaper partner can assess the value of local video content to local and regional newspapers, perhaps by exploring the value of video news to the newspaper's online operations.
- A pilot that includes a local television provider could determine whether there are any benefits of regional news gathering in supporting local television news production. For example through access to local video news content which could support other programmes perhaps by providing the basis of extended features or interviews. This could also be tested with online news providers.

The BBC could have a role to play through appropriate partnerships that might be developed with news consortia

- 7.70 BBC partnerships with news consortia could support wider public service broadcasting purposes. For example the localised news consortia would cater for the different nations, regions and communities within the UK.
- 7.71 Existing examples of BBC Partnership proposals include the memorandum of understanding with ITV and the July 2009 announcement of a deal with national newspaper to provide select BBC video content for use on their websites.
- 7.72 The BBC has identified that there is an opportunity for it to help the development of a diverse regional news infrastructure and there is potential to share raw news material and other resources more widely. If developed further, resources could be shared which may support news consortia in developing their own news-gathering and reducing overheads. Another infrastructure partnership might be possible by sharing the iPlayer technology to enable widespread digital distribution of news consortia output online or to set top boxes.
- 7.73 Partnerships will need to take account of the BBC's requirements and be watchful of editorial plurality concerns. There are practical limits on the possibility of sharing some resources, for example physical assets such as studio space.
- 7.74 The value of partnerships to consortia will depend on the nature of each consortium. The previous analysis by ITV plc of the value of BBC regional news partnerships were based on the savings ITV plc might make through access to BBC resources instead of using its own. Any new partnership proposals will therefore need to be based on the working practices of the individual news consortia.

Pilots could explore commercial ways to meet the costs of news consortia

- 7.75 The Government's *Digital Britain Final Report* suggests that consortia could explore commercial ways to meet the costs of regional news gathering. One option could be to allow consortia to sell air time. However, undertaking this without increasing Channel 3 peak time minutage allowances could, in effect, take advertising revenues from the Channel 3 licensees as their schedules are already optimised such that there is no advertising around regional news.
- 7.76 Adding significant levels of advertising minutage allowances to Channel 3 alone to fund news consortia would mean that Channel 3 was subject to preferential advertising regulation compared with the other commercial PSBs. This could dilute the overall price of advertising, undermining the ability of the Channel 3 network to deliver existing PSB obligations.
- 7.77 However it might be possible for the flagship 6pm regional news bulletin to carry a 3 minute centre break which a regional news consortium could potentially monetise. This could be sold in a regional or sub-regional advertising market where such advertising would compete with radio and newspapers and prices are well below TV advertising levels.
- 7.78 Ofcom analysis suggests that the value of this additional advertising minutage to news consortia is unlikely to deliver revenues of a magnitude to make a telling contribution to the costs of consortium news provision. However the pilots proposed by the Government could test the inclusion and sale of a 3 minute break in the 6pm programme and test the value of such regionally sold minutage.
- 7.79 It might be possible for news consortia to generate some value from rights and programme sales. This would depend on the nature of the rights agreements between the consortia members and any other relevant parties.
- 7.80 Channel 3 licensees could also provide some funding to the costs of regional news provision. Without the news generated by the consortia they would have to pay for programming to fill their schedules. ITV plc has estimated that replacement programming in place of the 6pm weekday bulletin would cost them approximately £6m per year.

The timing of news consortia is important to ensure ongoing regional television news provision

- 7.81 There are a number of timing challenges for news consortia. The current system that ensures the funding of regional television news is under considerable pressure. Our analysis of the costs and benefits of the Channel 3 licences, published alongside this document indicates that the Channel 3 licences will be collectively in deficit before digital switchover.
- 7.82 If it is the case that news consortia are used to address this challenge then they will need to be based on contracts that are sufficiently long to manage any upfront capital costs that consortia might incur setting up their news operations. This could require contracts for consortia news provision to be awarded on a five year basis.
- 7.83 However any consortia contract will need to recognise that the initial licence term of the current Channel 3 licences expires in 2014. As such longer term provision of regional television news by the consortia broadcast by the Channel 3 licensees may form part of discussions on the future of the Channel 3 licences. The process of

awarding consortia contracts could therefore benefit from being flexible enough to manage these uncertainties whilst delivering a secure home for the news service.

Section 8

Opportunities for local TV

Introduction

- 8.1 This section considers the prospects for local TV and the merits of alternative approaches to enable its provision.
- 8.2 Among others, Ofcom is required to secure the optimal use of spectrum, which includes considering whether and how spectrum should be made available for digital terrestrial television services.

The key points covered in this section are:

- Local television be delivered in different ways – we have set out three broad models for receiving a local TV service; a networked service, a standalone local TV service and a hybrid of the two.
- There have been a number of developments since our last assessment of the options for local television in our *Second PSB Review*.
- There are good reasons why local TV has developed elsewhere in the world but not in the UK.
- Local TV has the potential to deliver public value.
- Consumers see the potential value of local TV, but have low awareness of current services and concerns about quality.
- Local TV can be made available through DTT, satellite, cable or the internet.
- A number of potential policy approaches have been suggested by stakeholders for stimulating the development of local TV in the UK, including the use of spectrum available after digital switchover (DSO).
- Ofcom plans to consult on the potential uses of such spectrum in due course, which will help us to assess the options available for the delivery of local TV in the future.
- Government plans to pilot a regional TV news service as an alternative to the BBC and its potential as a platform for the future development of local TV services.

What is local television?

- 8.3 For the purposes of this section, local TV is deemed to be a linear video service, operating on a more tightly-defined geographical scale than the current regional services of ITV and the BBC.
- 8.4 Beyond this broad description, there is no single definition of what constitutes local TV. It could be delivered on a range of platforms; under a range of business models; and on a range of geographic scales. In the UK context, these scales could be at a community, town, county or metropolitan level. Similar geographic scales apply in many other countries too – although in less-populated areas of Europe and North America, local TV may serve much wider geographic area.

- 8.5 We have identified three different models in which local TV might be made available to UK consumers.
- A networked service. Taking this approach, viewers would receive a single, networked service, with content broadcast from a central location. This would be supplemented by local 'opts' at certain times of day in areas where a local TV station is broadcasting. This is similar to the affiliate model of local TV in the US.
 - A standalone local TV service. In this scenario, local TV stations would broadcast content specific to their own local area. Stations would be independent of each other and viewers would only receive content where a local TV station is operating. This is similar to the current Channel M service operating in Manchester.
 - A hybrid service. Local TV stations would broadcast content specific to their local area, but at the same time they could join together to create syndicated content, available to viewers of all member stations. Syndicated content could be broadcast at specific times, or member stations may decide when to schedule it themselves.
- 8.5 We go on to discuss the possible policy approaches to delivering local TV later on in this section.

There have been a number of developments since our last assessment of the options for local TV

- 8.6 In our *Second PSB Review*, we said that more work was needed to evaluate whether there was a case for market intervention to support linear local TV services. We said that local TV had the potential to deliver public purposes at a local level but, so far, had failed to play a significant role in the UK local media landscape.
- 8.7 As part of the evidence gathering for this report, we carried out further consumer research, conducted analysis of the economics of local TV to examine its viability; and undertook a range of stakeholder meetings and interviews to explore ways in which local TV services might be delivered.
- 8.8 Since publication of the *Second PSB Review* statement in January, there have been several developments which may have a material impact on our consideration of local TV:
- The recession has resulted in further adverse effects on UK advertising markets. Our analysis of the economic viability of local TV is in Section 6. It confirms that business models for local TV are extremely challenging.
 - We have held two auctions of interleaved spectrum,⁸¹ suitable for local digital TV services, in Cardiff and Manchester. Each auction attracted a single bidder and the spectrum was sold for the reserve price of £10,000.
 - A report commissioned by the Shadow Secretary of State for Culture Media and Sport has proposed establishing a new tier of local television licence, to be available in up to 80 locations across the UK.

⁸¹ This is spectrum retained for the six existing DTT multiplexes but not used in a particular location and so available for other services on a shared (or interleaved) basis.

- The Digital Britain Final Report has identified the Government's main funding priorities. These are for broadband roll-out and regional news for Channel 3 rather than direct support for broadcast local TV.

Why has local TV developed in other parts of the world but not in the UK?

- 8.9 Local television has been a long-standing feature of the broadcast ecology in North America and some countries in continental Europe, but has barely taken off in the UK.
- 8.10 About two dozen restricted service licences (RSLs) have been issued for local terrestrial TV services in the UK since 1996, but only four linear stations are currently delivering local services via terrestrial transmission - Channel M in Manchester; Northern Visions NvTv in Belfast; MATV in Leicester and York TV.
- 8.11 The most high-profile and best-funded UK local station is Channel M in Manchester. It is owned by the Guardian Media Group (GMG) and has benefited from synergies with the group's other north-west outlets. GMG operates a converged newsroom in Manchester with journalists serving its main regional newspaper title (*Manchester Evening News*), local weekly titles and local radio, as well as Channel M. Despite these economies of scale, Channel M is believed to be loss-making and has reduced its headcount by nearly half in 2009.
- 8.12 We believe that there are a number of factors that explain why local TV has developed elsewhere more than in the UK:
- Large urban markets in the US and Canada, with significant local advertising potential, have been able to support multiple local TV stations within a networked 'affiliate' model.
 - High levels of cable television penetration in many countries. In some, such as Germany, highly localised cable development has allowed targeted services to be accommodated at relatively low cost. In contrast, only 13% of UK households have taken up access to cable and rapid consolidation of the industry has meant that it has not focused on local services.
 - More active intervention by local, regional and central governments in some other countries, making possible the development of local services that would not have been viable on a strictly commercial basis.
 - The historic limited availability of spectrum and the constraints on the licensing regime for analogue local TV in the UK, compared to other countries.

Figure 59: development of local TV in Germany, Spain and France

Germany

Cable TV in Germany quickly achieved 80% penetration after its mass market introduction in the 1980s. A large number of cable companies – some serving just a single town or city, or even a neighbourhood – provided a competitive environment that fostered relatively cheap and easy access for local services.

From 1986 the federal government sanctioned a system for funding local TV through a 1% levy on the national licence fee. In many areas, open access channels were set up, allowing members of the public to make their own television programmes for transmission on the local station. Elsewhere, the money was used to subsidise commercial operators.

Similar conditions for development have also applied in the Benelux countries and Scandinavia.

Spain

In contrast to Germany, local TV developed in Spain almost entirely through terrestrial transmission. However this was only possible because of an uncontrolled regulatory environment for spectrum access, which resulted in a 'free-for-all' of thousands of local channels. This created major problems for spectrum use; Madrid alone had dozens of local stations before regulation was introduced and the social and economic value of the available spectrum was properly assessed. Similar conditions applied in the former Yugoslavia.

More recently, a disciplined regulatory environment for spectrum has reduced the number of local TV outlets but ensured that spectrum is more effectively used for both economic and social gain. However, many are either subsidised or owned by local authorities as the economics of local TV are challenging.

France

Cable penetration has also been historically low in France, compared to other platforms. Local TV has developed under a mixture of commercial and public authority-funded business models. Some stations cover large areas (e.g. TV8 Mont Blanc) while other stations focus on particular towns, often delivered by cable TV, such as Nice-Television.

The French regulator, the CSA, has imposed quotas on commercial terrestrial local TV channels, in return for access to spectrum and capacity on the Digital Terrestrial (DTT) platform.

- 8.13 Some of the stakeholders we have spoken to continue to look at North American models for examples of how local TV (mainly city-scale) might work commercially in the UK. Many US and Canadian cities are able to support two or more entirely commercial local stations - and the large metropolitan conurbations have multiple local TV channels. Although there is some limited public funding available in the US, almost all local TV services have developed under an entirely free market system.
- 8.14 However, there are some important differences between the UK and America. As with Germany and other northern European countries, a high level of cable penetration encouraged the initial proliferation of channels in major conurbations. Large city TV stations represented attractive local markets for advertisers, and TV companies were also helped by rival cable companies competing to drive down

carriage charges. Most significantly, many local TV stations operate as affiliates to one or other of the main US networks - ensuring viability and access to high quality network programming

Figure 60: Direct comparison of factors affecting local TV in the UK and the US

| United Kingdom | United States |
|---|--|
| TV advertising spend per head of population £58 p.a. | TV advertising spend per head of population £110 p.a. ⁸² |
| Low level of cable penetration and scarce terrestrial spectrum | High level of cable penetration and relatively abundant terrestrial spectrum |
| Many national TV channels | Few national terrestrial TV channels – US dominated by system of local affiliate stations which run local output alongside a network ‘prime time’ (supplied by CBS, NBC, ABC etc). |
| Newspapers the biggest platform for advertising (31% of market) ⁸³ | Television the largest platform for advertising (38% of market) |
| Almost all TV advertising sold to national advertisers | Almost all TV advertising sold locally |
| Tight regulatory restrictions on advertising, especially in news. | Regulation allows for product placement (including in news programmes) and political advertising |

Local TV as a source of public value

8.15 Before considering possible options for the delivery of local TV, it is important to identify whether local content can deliver public value. The *potential* to deliver public service purposes via local television has been recognised in a number of Ofcom studies – but the level of public benefit varies.⁸⁴

Public value through local content

8.16 Our consumer research and review of academic literature suggest that both public (citizen) and private (consumer) value could be derived from local content - especially from local news. In particular, value may be generated by keeping citizens informed of local developments in more detail than is possible via current regional TV news.

8.17 Other genres of programming suited to local TV may also have public value; for example, by providing an opportunity for local people to voice concerns or express opinions about local matters through current affairs or discussion programmes. This could contribute to a wider sense of local community, or serve specific communities within a locality (e.g. MATV’s content is targeted largely at the Asian community in Leicester). Other types of local programme might include a focus on local arts and entertainment.

⁸²Ofcom (2008) *International Communications Market Report* [Internet]. London. Available from: Ofcom <http://www.ofcom.org.uk/research/cm/icmr08/icmr08.pdf>
– figures in report relate to 2007

⁸³World Advertising Research Center (2009) *World Advertising Trends 2008*. London: World Advertising Research Center

⁸⁴ See for example Ofcom (2005) *Digital Local*; Ofcom (2007) *DDR Statement*; Ofcom (2009) *Putting Viewers First*

- 8.18 The experience of local TV in other countries is that local stations deliver a mixture of both local and non-local content. Many will simulcast news from national channels, or transmit acquisitions, or carry tele-shopping for parts of the day. This other content is relatively inexpensive compared to most forms of originated programming, such as local news. As outlined above, some countries (e.g. France) have granted access to spectrum or DTT capacity alongside quotas to secure a minimum level of socially valuable content.

Public value through local production and ownership

- 8.19 As we discuss elsewhere in this report, the process of creating content for local television services may give rise to other forms of public value; community involvement in content creation could increase skills within the local population; generate social capital through improved community relations; and create new opportunities for up-and-coming production firms and individuals. The talent may then migrate to more established national or regional channels.
- 8.20 The Community Media Association is among those who argue that the involvement of local people in the production and distribution of content is a particularly important aspect of the public value that can be delivered by local TV.

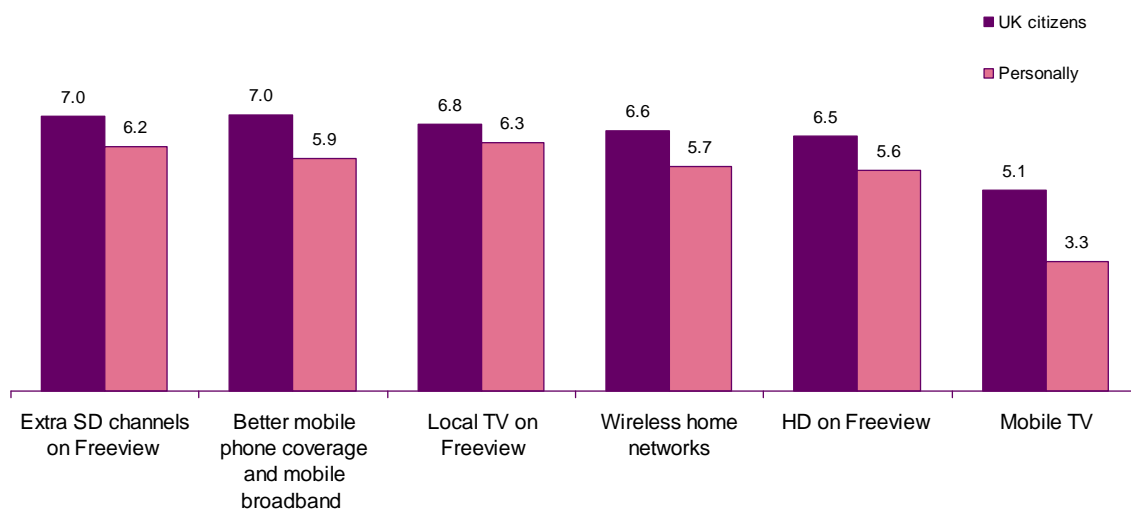
There is public support for the idea of local TV – but also a lack of agreement about what such a service might deliver

- 8.21 As we have already seen in this report, audiences appreciate news and information about where they live, and think it important that there is plurality in broadcasting alongside the BBC.
- 8.22 The scarcity of current UK examples of local television, combined with low awareness of these services, makes quantifying demand and appreciation of local TV services difficult. There is some evidence from the *Second PSB Review*, the *Digital Dividend Review* (DDR) in 2007, and from the market impact assessment of BBC proposals for local services in 2008⁸⁵.
- 8.23 The latter showed that around three-quarters of people (79%) rate local news stories and local weather (74%) as 'important' types of media. Local life and community stories were also considered 'important' by three in five (60%). However, it also found that 76% believe there is 'enough' coverage of 'local news stories' in the UK media; only 13% believed there is 'not enough'; 27% 'would like to access more in-depth local news programmes' but 39% disagreed.

⁸⁵ Ofcom's Market Impact Assessment research into the BBC Local Video service 2008.

Figure 61: Ratings of service importance (0-10 scale)

Scores on chart bars show mean average score out of ten given by respondents

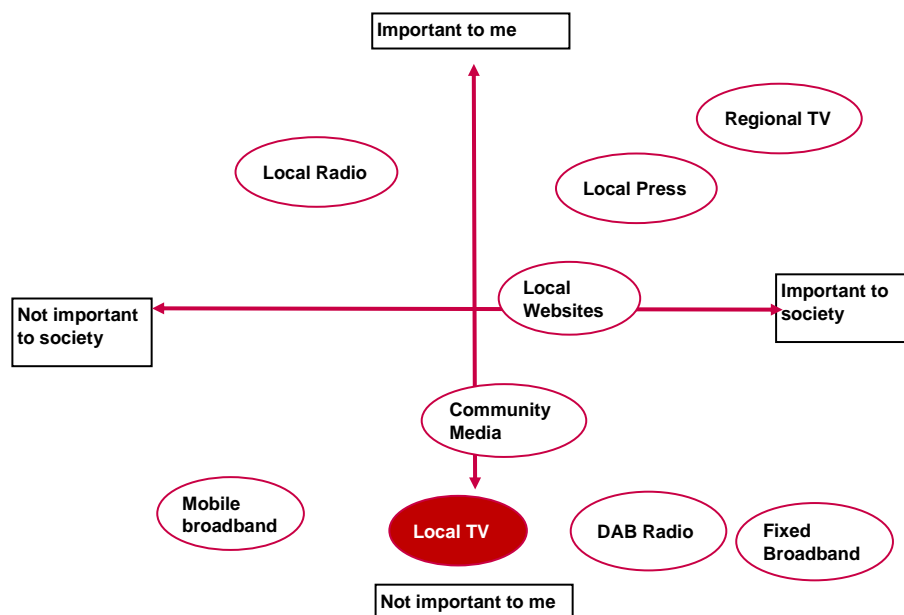


Source: Ipsos MORI survey 2007 Base: UK adults: 1,049. Don't knows are excluded from mean scores.

- 8.24 Research for the DDR assessed relative demand for a local television channel on Freeview⁸⁶ against five other potential uses of the spectrum. Thirty-five per cent of respondents selected a local television channel on Freeview as first or second choice from a citizen perspective – which placed it behind extra standard definition (SD) channels on Freeview (40%), and better mobile phone coverage and mobile broadband (40%), but ahead of wireless home networks (28%). Forty-one per cent chose it in their top two options from a personal basis, placing it second behind extra SD channels on Freeview (43%).
- 8.25 We conducted further deliberative research for this report, an element of which aimed to understand which local media people are likely to support in the future. Regional TV and local TV were discussed separately. Traditional local media platforms (e.g. regional TV, local newspapers and local radio) gained most support while support for local TV was low in comparison and gained less support than local websites and community media.

⁸⁶ Freeview is a service which provides free-to-air digital TV channels through an aerial. The Freeview brand is often used to refer to all UK digital terrestrial television. Digital switchover will enable the expansion of Freeview to almost 100% coverage in the UK.

Figure 62: Consumer vs. citizen view - importance of local media options



- 8.26 Support for local TV was often driven by an assessment of viability. Many respondents felt that while it could have real value for communities, it would need a serious amount of investment to achieve quality content and the right degree of localness.

Figure 63: Summary of attitudes toward local TV

Summary of attitudes towards local TV:

Positive

- Perceived to be potentially valuable to communities
- Support for locally-produced content
- Support for opportunities for local talent to 'cut teeth'
- Enthusiasm for potential opportunity for local residents to participate
- Local TV on Freeview could deliver wider social value

Negative

- Perceptions that high level of investment required to achieve quality content
- Considered less important than local websites, local newspapers and regional TV
- Perceived low quality and niche content
- Perceptions of limited broadcast area
- Indications of low consumption in areas with local TV

8.27 On balance, we believe that the evidence shows that although there is some support for the idea of local TV, there is a level of concern about what such a service might deliver. There are good arguments for local TV being part of a healthy local media mix, but its importance to citizens and consumers in the UK, compared to other platforms, appears to be low, mainly because of the lack of existing services for citizens and consumers to refer to.

There are a range of potential mechanisms for delivering local TV

8.28 Local TV can be delivered either via terrestrial broadcasting, cable and satellite networks or online (including IPTV). Each has different economics and characteristics.

8.29 Households in the UK receive their television in a number of ways. At the end of March 2009, 89% of UK households had access to digital television, of which 39% used digital terrestrial TV, 37% digital satellite and 13% digital cable.

8.30 Consequently, any intervention to support delivery of local TV on terrestrial television does not necessarily make it universally available; by March 2009 around 67% of households had access to a broadband internet connection.

Digital terrestrial television (DTT)

8.31 In theory, there are two main options for delivering local TV over DTT:

- Local TV operators can obtain access to spectrum and use it to transmit one or more multiplexes which would carry their services.
- Local TV operators can gain access to capacity on an existing DTT multiplex.

8.32 The two options are very different. Owning spectrum gives an operator access to a specific part of the airwaves. Each 8 MHz band can be used for many things, including the broadcast of a DTT multiplex, which could carry between 3 and 12 TV channels (video streams).

8.33 Setting up a multiplex requires infrastructure and engineering investment: the operator would need to enter into contracts for site and mast access, buy or lease transmission and multiplexing equipment, carry out the engineering work necessary to place the transmitters on the masts and to link up with studios and electronic programme guide (EPG) facilities. This involves significant one-off infrastructure costs as well as ongoing transmission and circuit costs. However, access to spectrum gives the operator the opportunity to run more than one channel and/or lease the remaining video streams to other channels, and so generate income.

8.34 Access to spectrum is a very different operating model to gaining capacity on an existing DTT multiplex. If an operator uses capacity on an existing multiplex, their role is limited to delivering the content in the right format to the multiplex operator. Initial set-up costs are significantly lower, but the ongoing costs of paying the multiplex operator for capacity could be significantly higher than for an operator with access to (particularly interleaved) spectrum, and will depend on the market price for a particular video stream and EPG position.

Satellite networks

- 8.35 In theory, a local TV station could transmit its service via digital satellite (as does Channel M, which sits at Channel 203 on the Sky EPG). The obvious disadvantage is that any local service would occupy a full national 'slot' on the satellite, and would therefore be available to viewers across all of the UK. This is not a problem *per se*, but it means that carriage via satellite may be disproportionately expensive for a channel that may only be of interest to viewers in a small geographic area (on the other hand, there may be benefits in attracting viewers from an area's diaspora).
- 8.36 As satellite offers a large amount of capacity for broadcasting television, radio and data services, an extensive EPG is required to enable viewers to locate individual services. Local services on satellite would need to obtain positions on the satellite service EPG and, like any other channel, would need to compete for the attention of viewers among the several hundred other programme services.

Cable networks

- 8.37 Like satellite, cable offers a large amount of capacity for television services and provides an EPG for viewers to navigate across channels. In practice, the number of services carried on cable is smaller than on satellite, and there is greater opportunity for regionalisation. The potential for adding interactive features is a plus point for digital cable, with much higher data rates available than through a dial-up telephone connection.
- 8.38 The principal disadvantage of cable delivery is that it is limited by cable company network geography - and is only available to customers paying a subscription charge for the service. Only the largest towns and cities are fully cabled, with approximately half of UK homes passed by a cable company. There are few examples of UK local TV on cable - although there have been failed ventures in some places (e.g. Channel One in London, Birmingham and Liverpool). Channel 7 survives as a community-based channel in Immingham on Virgin Cable.

Online (IPTV)

- 8.39 Like cable, the delivery of local TV services over internet protocol television (IPTV) offers the advantage of a return path, allowing for greater interactivity, and new ways to release social value. This may be particularly relevant for certain genres of programming such as current affairs at the local level, allowing viewers to submit questions to local politicians, or allowing citizens to access council services while seeing them on a public information video on a local TV service.
- 8.40 There are much lower entry costs for local TV operators basing their business models on the internet. However, broadband operations have suffered so far from a lack of awareness and 'discoverability'. Those 'local TV' services that have launched exclusively as internet offerings (such as Kent TV) do not have the appearance of traditional linear television. They include text and 'on-demand' services and are much more akin to pure websites.
- 8.41 The Broadband Universal Service commitment proposed in the Government's *Digital Britain Final Report* may encourage the take-up of IPTV services. In addition, the commercial roll-out of superfast broadband may further increase the potential for video services delivered via IPTV.

- 8.42 In future, delivery of TV services over ADSL may enable greater levels of localness than use of terrestrial transmission, given the greater capacity of these systems and their ability to target areas smaller than terrestrial broadcast coverage areas.

Figure 64: Assessment of approaches to various delivery platforms for local TV

| Platform | | Advantages | Disadvantages |
|---------------------|---|--|---|
| Digital Terrestrial | Using spectrum obtained via auction | Market-led; requires no further intervention Flexible scale (provision will reflect demand) Allows operator to run local multiplex (additional channels) Near-universal reach in target area Low ongoing technical costs | Suitable spectrum not available everywhere Local TV could lose out to other uses Relatively high entry cost due to technical/engineering requirements |
| | Using reserved capacity on national multiplex | Some form of local TV service could be available throughout UK Allows for different types of local TV in different areas Relatively inexpensive engineering cost (add-drop) ⁸⁷ | Significant intervention to reserve video stream(s) Occupies valuable capacity whether or not there is a local TV station in a given area (not demand driven) Requires network sustaining service – unclear how this will be paid-for and organised Inflexible – difficult to localise in some areas without significant infrastructure cost (e.g. Winter Hill) Issues with service information (EPG) |
| Digital satellite | | Potentially available everywhere (unlike cable) Relatively abundant capacity on satellite | Satellite access costly Transmission not localised (Sky received throughout W. Europe) Requires satellite subscription to receive (or Freesat) |
| Digital cable | | More capacity than DTT Potential for localised delivery Potential for interactive applications | Relatively high carriage charges Low UK cable penetration in comparison to certain other countries Requires subscription |
| Broadband (IPTV) | | Minimal entry costs Almost infinite capacity on the web Potential for multi-media approach (linear; on-demand; text etc) Potential for interactivity | Potentially hard to find amid millions of websites Broadband not yet universally available Quality not yet equivalent to DTT |

There are a number of different approaches for the provision of local TV on digital terrestrial broadcasting

- 8.43 Notwithstanding the variety of mechanisms by which local TV could be delivered, significant interest has been expressed by some stakeholders in the development of local TV on DTT in particular. They say that DTT would provide local stations with a visibility that is impossible to achieve through other platforms, and so would create critical mass for the local TV sector.
- 8.44 There have been several proposals for developing local TV further on DTT, and we outline these below. The main differences between each approach are the level of intervention deployed and whether operators use spectrum or capacity on an existing multiplex.

⁸⁷ Under add/drop arrangements, local television operators would agree with a multiplex operator to remove a certain service in an identified area and replace it with the local service.

Using spectrum:

- Obtained via usage-neutral auction – Ofcom’s Digital Dividend Review (DDR) decided on a market-led approach to awarding the spectrum after DSO, with interleaved spectrum packaged and auctioned in geographic lots especially suitable for local TV. We have held the first two auctions of interleaved spectrum packaged in geographic lots, which make it especially suitable for local TV – although they are not reserved for this purpose.
- Reserved spectrum – spectrum could be reserved for local TV. For example, it might be possible to create a separate Scottish multiplex, given the greater availability of interleaved spectrum in Scotland than elsewhere. The operator might be required to carry local TV.

Using capacity on an existing multiplex:

- Acquired capacity on DTT video stream – obtained on the market – when capacity becomes available on an existing multiplex, it could be acquired by a local TV operator(s) and used to operate local services.
- Reserved video stream – this is the ‘Channel 6’ proposal, outlined by local TV lobby group United for Local Television (ULTV) and others. This approach would involve establishing a UK-wide network of local TV channels based on a market intervention to reserve dedicated capacity on a national multiplex.

Looking at the three different ways of making local TV available we discussed earlier in this section, the networked service would be most appropriately delivered by using capacity on an existing multiplex, while the standalone and hybrid services might be more appropriately delivered by using new spectrum.

Local TV using spectrum obtained via usage-neutral auction (our existing approach)

- 8.45 The very nature of local television presumes delivery to viewers in well-defined geographic areas. Demand for these services might vary between different parts of the country – and operators might meet that demand in different ways, either through standalone local TV services or hybrid services.
- 8.46 In our DDR statement we concluded that if there was demand for interleaved spectrum to provide local DTT services, this could best be enabled – without precluding other, potentially more valuable services – by identifying and awarding suitably designed packages, each providing coverage of a defined area. We would offer these ‘geographic interleaved’ packages in as many parts of the country as technically feasible, subject to receiving expressions of interest from potential bidders.
- 8.47 We recognised that, as well as targeting a specific locality, some operators might want to offer services over a larger area (e.g. a region) or in a number of areas (e.g. a metropolitan network). There might also be demand to offer UK-wide coverage, perhaps to establish a federal arrangement that provides scope for local services within a national network.
- 8.48 In making our decisions in the DDR, we aimed to meet this range of demands as completely as possible. We recognised that the interleaved spectrum that we could make available would not offer full UK-wide coverage, but thought it was important to offer spectrum in areas where it was available, and where there was credible

demand for local television. We identified 81 potential locations for spectrum auctions on this basis. The biggest five sites on the list of 81 transmitters serve one million or more households; the next eight serve more than half a million households; and the next 12 more than 100,000 (based on coverage using the transmitters that broadcast the six existing multiplexes). The remaining 56 sites (i.e. the majority) cover progressively fewer households.

- 8.49 Our plans for the geographic interleaved awards also included a second package in 25 of the 81 locations, to be auctioned in a combined award, in order to be particularly suited to those wishing to deliver services in multiple areas.
- 8.50 Auctions have already been held for spectrum packages in Manchester and Cardiff - areas where there were established local TV stations (through RSLs), and where digital switchover was imminent. In both cases, the auctions attracted only a single bid and the packages were sold for the reserve price of £10,000. The auction in Manchester was won by the incumbent RSL, Channel M. The auction in Cardiff was won by Cube Interactive.
- 8.51 Interleaved spectrum that is not auctioned in this way will be awarded to a band manager with responsibilities for satisfying the demands of programme making and special events (PMSE)⁸⁸. The band manager will have incentives to find uses (including local TV) where such spectrum is not required for wireless microphones and other PMSE applications.
- 8.52 There is not enough interleaved spectrum available to cover the whole of the UK. Although good coverage is possible in the north of England and Scotland, it becomes progressively sparser towards the south and east. If aggregated together, services using interleaved spectrum at the 81 locations might reach around 50% of households.
- 8.53 In June this year, we decided to align part of the UK's digital dividend with that of a growing number of countries in Europe⁸⁹. This will involve changes to the configuration of the interleaved spectrum that will be available after digital switchover. Some of the locations and frequencies previously identified as suitable for geographic interleaved awards may change as a result. The net result will almost certainly be a reduction in the total amount of interleaved spectrum available, particularly in the South and East of England.
- 8.54 Aligning with other European countries will make the upper band of cleared spectrum in the UK's digital dividend suitable for mobile broadband. As a consequence, while the lower band will remain suitable for DTT (and possibly other services), combining it with geographic interleaved spectrum may be the only way to deliver new DTT multiplexes with near-UK coverage that can be received by existing household aerials.

Local TV supported by reserved spectrum

- 8.55 There are alternative approaches to how spectrum is made available.

⁸⁸ Programme Making and Special Events – a class of radio application that supports a wide range of activities in entertainment, broadcasting, news gathering and community events

⁸⁹ Ofcom (2009) *Digital Dividend: Clearing the 800 MHz Band* [Internet]. London. Available from: Ofcom <http://www.ofcom.org.uk/consult/condocs/800mhz/statement/clearing.pdf>

- 8.56 A report compiled for the Shadow Secretary of State for Culture Media and Sport⁹⁰ suggests that direct allocation of spectrum for local TV could support a new tier of local television licences/franchises. These would be operated in collaboration with existing local media, principally local newspapers. The report says that local TV stations could be commercially viable in this scenario, because they would deploy a large element of volunteer and student labour to produce content.
- 8.57 Such an approach could be facilitated if interleaved spectrum were specifically reserved for local TV, and awarded as a single package to a band manager, who would then authorise use of the spectrum by end-users. The band manager would be required to satisfy the demands of local TV operators before using the spectrum for other purposes, but if there was no demand from local TV, the spectrum could then be released to other users, under arrangements like those detailed above for a band manager with PMSE obligations.
- 8.58 This ability to trade spectrum could counter potential efficiency concerns. For example, there might be no interest in providing local TV services at some transmission sites. Alternative uses of the interleaved spectrum might include 'plugging gaps' in national DTT 'in-group' coverage, or delivering geographically specific applications (e.g. wireless broadband). It may be necessary to ensure that a band manager has the incentive, as well as the opportunity, to find alternative uses for its spectrum.
- 8.59 The availability of interleaved spectrum varies between different parts of the UK. In Scotland, there is likely to be much more available interleaved spectrum than elsewhere in the UK. As a result, some Scottish stakeholders are increasingly favouring approaches based around reserved access to capacity on a new 'Scottish multiplex', using interleaved spectrum, in addition to the six existing UK-wide DTT multiplexes. This represents a variation on the option of simply reserving interleaved spectrum, as outlined above.
- 8.60 In confidential submissions to the *PSB Review* and responses to the Government's *Digital Britain Interim Report*, some stakeholders said that Scotland was under-served by broadcast media, including at regional and local level. This could be remedied by use of interleaved spectrum in Scotland for local TV – particularly via a Scottish multiplex. One respondent has outlined plans for local TV stations to be funded at arm's length by local authorities and other public bodies via a dedicated public fund. Interest has been expressed in community, rather than fully commercial, local television, in many of these places. A Scottish multiplex could of course also be used to carry national or regional TV services.
- 8.61 It is likely that there will be significantly less interleaved spectrum available in Wales, and a similar approach there would not be possible. In England and Northern Ireland, more interleaved spectrum is likely to be available than in Wales, although much less than in Scotland.

Reservation and assignment of a video stream on a DTT multiplex

- 8.62 Using capacity on an existing multiplex is the most effective way of delivering a networked service across the UK. The Channel 6 proposal is based around a UK-

⁹⁰ Parry, R. (2009) *Creating Viable Local Multi-Media Companies in the UK* [Internet] London Available from: The Conservative Party http://www.conservatives.com/News/News_stories/2009/07/Local_television_consultation_launched.aspx [Accessed 19 August 2009]

wide network of local television channels using dedicated reserved capacity on the Freeview DTT platform. Potential operators need therefore have no concern about obtaining access to spectrum.

- 8.63 Under this proposal, a nationwide 24-hour sustaining service would be transmitted, into which the various local stations would insert their more locally-targeted output from any of the Freeview transmission sites (the 'add/drop' system⁹¹). The volume and nature of this local content would vary from place to place. The proposal was originally submitted to Ofcom's *Second PSB Review Phase 2* consultation⁹² and has subsequently been developed in response to the *Digital Britain Interim Report*.⁹³
- 8.64 Supporters of this approach suggest that the lack of access to effective distribution platforms is the principal reason why local TV has failed to develop in the UK – and that secure access to Freeview will be "critical" to any successful future development of local TV.
- 8.65 As well as seeking reservation of DTT capacity on a multiplex, the industry group United for Local Television (ULTV) is seeking the granting of PSB status to local services, and 'must carry' obligations on broadcast platforms. In return, the Channel 6 stations would agree to particular programme commitments (as in the French model). Supporters say that this intervention would be justified because of the broader social value of local TV, compared to other potential users of the capacity.
- 8.66 The Government, rather than Ofcom, has the power to reserve video streams on any of the six Freeview multiplexes, including the commercial multiplexes, for services meeting PSB purposes (more capacity may become available on Freeview at digital switchover⁹⁴). It is worth noting that even where capacity is reserved for PSB services, the broadcasters are required to pay the multiplex operator for carriage.
- 8.67 The Channel 6 proposal presents particular technical issues that do not apply to those options which are based on individual stations using local transmitters.
- 8.68 Using the 'add/drop' arrangement, it would be possible to insert local content at each of the 80 main transmitters that form the core of the DTT network. A local service would automatically be carried on the relay stations associated with a main transmitter. Depending on the multiplex chosen, this would mean that about 90% of UK households could be covered - a PSB multiplex, for example, would cover around 98.5%.
- 8.69 However, in some areas, the coverage of individual transmitters is very extensive. For example, the Winter Hill transmitter covers the whole of the Granada region. All viewers in the coverage area would receive the same service and there would have to be additional arrangements for targeting more localised areas.
- 8.70 How any local TV networking arrangement would work in practice is a particularly important consideration. The economic analysis suggests that networking may be essential to promote the viability of these stations (even with some form of regulatory

⁹¹ Under this arrangement several video streams (each one of which is a television channel) are combined (multiplexed) and then sent to a number of different sites. At each site a video stream containing a local television service is added and then broadcast from the local transmitter.

⁹² See: http://www.ofcom.org.uk/consult/condocs/psb2_phase2/responses/ultv.pdf; and http://www.ofcom.org.uk/consult/condocs/psb2_phase2/responses/ultv_annec.pdf.

⁹³ See http://www.culture.gov.uk/images/publications/ULTV_DBIRResponse.pdf.

⁹⁴ Each multiplex will be capable of carrying between three and 12 video streams post DSO, depending on multiplex configuration

asset or external funding), and would therefore be a factor in any decision to intervene to promote local television.

The future shape of local TV in the UK is a matter for Government policy

8.71 Some of the options for enabling local TV on DTT depend on the availability of spectrum after the completion of digital switchover. However Government policy will also be critical in determining the future shape of local TV.

8.72 Taking the three models we set out at the beginning of this section:

- The networked model, a bidder might acquire capacity on a commercial basis or else the Government could either reserve a video stream on a PSB multiplex or bid for capacity through the market. Given the economics of local TV, such a model may also require some form of public subsidy to ensure a viable service could be delivered.
- The standalone local TV model could be realised through Ofcom's current DDR proposals for spectrum auctions, but will depend on the availability of spectrum after the completion of digital switchover. It is also possible that some form of additional funding could be required to support stations in areas which are economically unviable.
- The hybrid model could also be realised through the current proposals for spectrum auctions. Stations which might potentially lose money on a standalone model could be cross-subsidised through the network. However the costs of setting up a hybrid network are still likely to be significant.

8.73 Decisions about the future funding, provision and development of regional TV news could also be very important for the development of local television. Government proposals for news consortia pilots in England, Wales and Scotland could play an important role in the development of local television:

- The creation of news consortia may provide cost synergies which could make it more economically attractive for them to set up local TV services alongside their regional news and wider local media activities.
- Local news and other content created by the consortia for the Channel 3 news service could be used to support local TV services within the regional news footprint. 'Overlap' content, specific to a particular area, could be used for local TV services as well as for local newspaper websites and other local media activities.
- The participation of IFNCs in local TV services may also address concerns over production quality, as expressed in the consumer research.

We propose to consult in due course on the potential uses of spectrum

8.74 We are examining options for further geographic interleaved spectrum awards. However, we will not be able to proceed with these awards until it is clear (from the outcome of negotiations with neighbouring countries to clear the 800 MHz band) what packages will be available for award. And we need to consider the availability of the lower band of cleared spectrum as well.

- 8.75 As we have done with Manchester and Cardiff, we may award spectrum licences ahead of digital switchover in locations where there are already licensed local TV stations. We also believe that the news consortia pilots could provide us with valuable data to help us to assess the best way of making this interleaved spectrum available, including the likely demand in the pilot areas and interest in other parts of the country from potential news consortia. In the meantime, our current plans assume that the band manager with PMSE obligations will become operational in summer/autumn 2010. Any spectrum not required for PMSE could then be used for other services, including local TV.
- 8.76 We propose to consult in due course on the potential uses of the spectrum and the best way of making it available.

Section 9

Creating opportunities for sustainable local radio

Introduction

- 9.1 In the light of the substantial economic pressures we describe in Section 6, we are currently carrying out a range of work in relation to local radio. This is intended to enable the commercial and community radio sector to continue to deliver local services and content, valued by citizens and consumers, on a sustainable basis, and to help equip the sector to take advantage of future opportunities.
- 9.2 We also discuss opportunities for community radio and the potential for new ‘ultra-local’ radio services that might be enabled by the digital upgrade in radio, proposed by the Government.

The key points covered in this section are:

- In July 2009 we published our consultation on proposed changes to the regulation of localness in radio.
- Our consultation sets out a three-tier structure of strategic radio regulation
- First, encouraging new UK wide services with financial scale and critical mass
- Second, creating a sustainable tier of local radio with defined regulation around localness
- Third, creating a new tier of small-scale radio, operating alongside the existing community radio sector, with less defined localness criteria
- We also propose to build on the success of community radio, by continuing to licence new stations where spectrum becomes available and there is interest
- The Government’s digital upgrade proposals could also see the creation of a new wave of ‘ultra-local’ radio stations from 2015
- We are also awaiting responses to our proposals to amend the broadcasting code for radio.
- Finally, as set out in our consultation on media ownership, published in July 2009, we propose to remove local radio ownership rules and liberalise the cross media ownership rules

Summary of our consultation: Radio - The Implications of Digital Britain for localness regulation

- 9.3 In July 2009 we published a consultation document setting out proposed changes to the regulation of localness, which could be implemented if Parliament were to pass legislation proposed by Government as part of *Digital Britain (Radio: the implications of Digital Britain for localness regulation)*. We present a summary of the proposals below.

9.4 Regarding localness regulation, the *Digital Britain Final Report* suggests that Ofcom should:

- give stations flexibility to co-locate within newly defined areas, consulting on a new map of such areas which balances the needs and expectations of listeners with the potential economic benefits of that flexibility;
- proceed with re-planning the existing DAB licensing structure to increase the viability of the DAB platform and to prepare for the Government's planned digital upgrade (extending and merging local multiplexes and changing existing frequencies as appropriate, and possibly creating a new national commercial multiplex from existing regional multiplexes); and
- consider reducing the number of locally-produced hours that stations are obliged to broadcast, in return for an enhanced commitment to regular and updated local news.

9.5 The *Digital Britain Final Report* also suggested that we should work with the DCMS to develop a two-year pilot of a new, output-focused regulatory regime, perhaps using an agreed set of obligations proposed by the stations themselves. Discussions will start shortly with DCMS regarding how such a pilot might be implemented. We then propose to consult on these ideas.

9.6 Some of the proposals in our July 2009 consultation require legislative changes to alter Ofcom's duties and powers. Those changes are of course a matter for Parliament. Our understanding is that, following the *Digital Britain Final Report*, the Government intends to include proposals for such changes in a Digital Economy Bill for Parliament's consideration in the autumn. We published the consultation in July as we want to want to be in a position to implement any consequent regulatory changes as soon as possible. If Parliament decides not to take forward the legislative changes proposed in the *Digital Britain Final Report*, most of the proposals in this consultation will not be able to proceed, and existing rules will continue to apply.

9.7 Our detailed proposals on how localness regulation of commercial radio might be relaxed are made with a three-tier structure as a strategic goal:

- At the UK-wide level, facilitating the creation of new commercial radio stations to create an improved consumer proposition: a wide range of popular and niche services, delivered digitally. This would not only provide greater choice for consumers but also could help drive DAB take-up (as Freeview helped to drive take-up of digital television).
- At a local level, helping to ensure the survival 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 would cease broadcasting on FM in the 'digital upgrade' proposed in the *Digital Britain Final Report*.)
- At the smallest scale, building on the success of the not-for-profit community radio sector, but also allowing for the survival of commercial models where these are viable. (The digital upgrade would allow for the creation of additional ultra-local radio services, occupying FM spectrum vacated by those services migrating to DAB.)

Encouraging new UK-wide services

- 9.8 Allowing existing regional analogue stations to share all of their programming, in return for providing a version of their programme service on a national DAB multiplex, could bring competition and choice in national services, a greater range and diversity of content for consumers, and the potential for new investment in programming. When carried on national DAB, these stations' local content would become less of a defining characteristic. The level of localness regulation that currently applies to them could then, we propose, be removed.
- 9.9 Given the specific needs of the nations, we propose that regional stations in Scotland and Wales should have to retain their specific national foci. In Wales, where there are separate regional services for South Wales and North & Mid Wales (not yet launched), these could combine to form a national service for Wales, provided that the service was carried either on a national DAB multiplex or on all local DAB multiplexes in Wales.
- 9.10 The existing national commercial multiplex cannot offer regional variations of either programming or advertising (other than between Scotland, and England and Wales). Such regional capability could benefit listeners, station operators and advertisers. So, if the relevant legislation is passed and spectrum can be secured, we propose to allow the six existing regional multiplexes (plus one of the three London multiplexes) to combine and extend their areas to form a single national multiplex with the ability to offer regional opt-out programming and advertising. This would require the allocation of additional spectrum, and we would only consent if we were satisfied that this would satisfy certain criteria, in the interests of listeners. We envisage a short consultation upon receipt of such a request.

Regulating for localness within a sustainable, universal local tier

- 9.11 Ofcom's current regulatory guidelines and licence conditions require the majority of FM local stations to broadcast at least ten hours a day of locally-made programming containing local material. Co-location and programme sharing are generally permitted only for smaller stations.
- 9.12 Listeners value news more than other content on local commercial radio. Local radio also provides a source of news plurality, complementing the BBC. We propose that stations could choose either to retain their current commitments, *or* broadcast a minimum of seven hours of locally-made programming daily, in return for broadcasting local news, regularly refreshed and updated, at least hourly during weekday daytimes.
- 9.13 The need to balance protection of local content with commercial scale leads us to propose a new set of defined local areas, within which stations would have far greater flexibility, while still being held to local programming.
- 9.14 We would change our localness guidelines so that within each defined area, FM stations would be able to co-locate and request to share all of their programming, effectively allowing them to come together to become larger, more viable stations. Ofcom would be likely to consent to such requests, provided we were satisfied that the stations involved continued to meet their licence obligations to provide local material relevant to the listeners in the licensed areas.

- 9.15 Requests for flexibility beyond these areas would also be considered, but would require individual consultation and assessment, using the existing criteria of size, affinities and financial viability.
- 9.16 We also propose that local AM stations should generally be freed of any requirement to provide locally-made programming, except for the existing licence requirement to produce ten hours a day of programming on weekdays from within their home nation (no station would be forced to produce more programming from within each nation than it does at present). This could allow the creation of a national AM service for Scotland.
- 9.17 Some of the existing local multiplexes are probably too small to be financially viable and may need to be re-planned. We suggest that local multiplexes should be allowed to merge within each defined area, to carry the same services across a whole defined area to improve coverage. In some cases it may also make sense to use a common frequency across these multiplexes, although the possibilities for this are limited due to frequency shortages and the need for international coordination, which will become increasingly difficult as other countries make use of the frequencies they have been assigned.

Small-scale radio

- 9.18 Community radio stations are clearly demarcated, but there is no clear or statutory distinction between large commercial radio stations and those that operate on a small scale. In this consultation we do not seek to define which stations are small and which are large, but we do seek to start the debate. We suggest four criteria, broadly correlated, which could be used to distinguish small commercial radio stations from larger ones: the proportion of the existing local DAB multiplex area covered, the adult population covered, the geographical area covered, and the fact that these stations are not currently simulcast on DAB. We welcome views as to whether these are the right criteria.
- 9.19 The implication of our proposed approach to programme sharing and co-location within defined areas is that if individual stations fall into the small-scale category, they can choose, whether to remain 'small' or to move up into the larger tier, either by combining with other FM services or by broadcasting on DAB. This decision can be made at any time between now and the digital upgrade, and if they do merge to become part of the larger tier, they may expect to be part of the proposed digital upgrade, losing their FM licences.
- 9.20 Our proposals for changing localness regulation are all based on existing analogue local services regulation, and so would apply to current analogue/DAB simulcasts. If local content were to be similarly protected after the digital upgrade, a new regulatory framework for digital-only local services would be needed.
- 9.21 For further information on our proposals, and our specific consultation questions, please refer to *Radio: the implications of Digital Britain for localness regulation* available at: <http://www.ofcom.org.uk/consult/condocs/radio/condoc.pdf>. The closing date for responses is 23 October 2009.

Building on opportunities for community and ultra-local radio

- 9.22 The Government's *Digital Britain Final Report* proposes upgrading the UK's radio broadcast networks from FM to DAB, and "creating a new tier of ultra-local radio

which will occupy the FM spectrum vacated by those services migrating to DAB⁹⁵. This new tier would include community radio services and small-scale commercial services not big enough to migrate to DAB. In principle, spectrum would be available for many more services than are currently provided for. New types of service might be launched, with new public purposes and regulatory obligations, distinguishing them from services in the current commercial and community licence categories.

- 9.23 With the digital upgrade planned for 2015, thinking about the ultra-local tier of small-scale radio services is still at an early stage. However, the implication of the *Digital Britain Final Report* is clearly that these services would be the most local of all broadcast radio services, complementing the larger-scale local commercial services delivered on DAB at a higher level within our proposed defined areas. These services might potentially act as another entry point into employment in the local media sector, including journalism, by providing a range of training opportunities for local volunteers.

Community radio

- 9.24 We believe that community radio is playing a valuable role in delivering social value to communities throughout the UK, with over 200 stations licensed since 2004 and more than 150 currently on air. We will continue to license new community radio stations where there is available spectrum and interest, although in practice there is very little additional spectrum either to launch more community services or to improve the robustness of existing stations' coverage.
- 9.25 In July 2009 we re-issued an invitation for applications for community radio stations within Greater London and within the M25 region; additional spectrum had become available due to the decision by a local commercial station to hand back its licence.
- 9.26 The Community Radio Fund is provided by the DCMS, and is currently administered by the Community Radio Fund Panel, which is appointed by Ofcom and reports to the Ofcom Board. It has an annual budget of £500,000 – although not all of this is available for distribution⁹⁶ – and this represents 7% of total sector funding (2007/8 figures). At present it supports only Ofcom-licensed community radio stations.
- 9.27 The community radio sector receives the remainder of its funding from a wide range of sources, including grants from public bodies (including, in Wales, the Welsh Assembly Government Community Radio Fund), funding from private sources and other third-sector organisations, and, for most stations, some revenue from advertising.
- 9.28 Partnerships between community radio stations and other groups are likely to be increasingly important for the future development of this sector. Partnerships, both within the community radio sector and between community radio and other community and commercial media sectors, may have a role to play in supporting the sector.

⁹⁵ *Digital Britain Final Report*, p 101

⁹⁶ In 2008/9, £455,000 was available, following prior allocations by DCMS to other community media projects. The *Digital Britain Report* stated that in future, government would pre-allocate some of the fund to the Community Media Association.

We are currently considering responses to our proposals to remove the local radio ownership rules, and make changes to the Broadcasting Code

9.29 As noted previously, we are currently considering responses to our consultation on the review of the operation of the local radio ownership rules and local cross-media ownership rules. We will publish our recommendation to the Secretary of State in the autumn. In our consultation we proposed:

- removing all the local radio service ownership rules and the local and national radio multiplex ownership rules. Removal may improve stations' viability. Research also shows that the majority of consumers are unconcerned about single ownership within local commercial radio; and
- liberalising the local cross-media ownership rules so that cross-ownership of a major local newspaper, local radio station and Channel 3 licence continues to be restricted, but ownership of two of these media is allowed.

9.30 We are also currently considering responses to our consultation on proposals for reforming the Broadcasting Code⁹⁷. We proposed replacing the current sections on sponsorship and commercial references with a new section, specific to radio, which would cover:

- Content-related promotions: proposals to allow a brief 'offer of further information', or 'offer for sale', of a product or service that is directly associated with specific content and funded by a third party.
- Venue-sponsored outside broadcasts: proposals to allow the sponsorship of outside broadcasts by the venue or venue owner.
- Sponsored listener competition features: proposals to allow sponsor references to form part of listener competition features.

⁹⁷ Ofcom (2009) *Broadcasting Code Review: Proposals on revising the Broadcasting Code* [Internet] London
Available from: Ofcom <http://www.ofcom.org.uk/consult/condocs/bcode09/main.pdf> [Accessed 19 August 2009]

Section 10

Future challenges and opportunities

Introduction

- 10.1 In previous chapters we have examined the local and regional media ecology, consumer views on local media, the changing role of local journalism and the economic challenges faced by the sector. In this chapter we consider the future challenges and opportunities for the UK local media sector and examine a range of potential approaches that have been suggested by some stakeholders.

The key points covered in this section are:

- The economic outlook for local and regional media providers is uncertain
- New business models are emerging in the US, which may appear in the UK
- In the US, new technology is opening up possibilities for ultra-local media
- In the UK, both community and ultra-local media may have a role in delivering public value, but they face challenges in both funding and discoverability
- There is a range of views on the future shape of local and regional media
- Potential policy approaches for the future include public subsidy, tax breaks, and the adoption of new business structures including trusts, charities and community interest companies
- The Government's Digital Participation strategy will play an important role in equipping consumers and citizens with the right skills to participate in the sector
- The BBC and Channel 4 are likely to have important and complementary roles to play, although it will be necessary to balance the public value created through intervention with the potential market impact

Managing the transition to a digital business model

The economic outlook for local and regional media providers is uncertain

- 10.2 In section 5 we examined the underlying economics of local and regional media and concluded that the impact of the combined cyclical and structural pressures varies by sector and by individual company. The structural change caused by competition with online content is likely to continue and may accelerate if access to, and use of, the internet continues to increase.
- 10.3 In the short to medium term, local media groups will need to adjust their business models as they adapt to the impact of the internet and increasing competition for revenue. We have already identified significant short-term challenges for regional television news and local radio under their current business models.
- 10.4 The longer-term outlook for the local and regional media sector (and particularly local and regional newspapers) appears to depend on a range of factors, including the rate of increase in internet penetration and the degree to which local media providers are able to compensate for further declines in traditional revenue streams through their digital businesses.

- 10.5 In the remainder of this section we examine some of the challenges and opportunities that local media providers are likely to face in the future.

New business models are already emerging

- 10.6 New strategies will need to address the funding issues that lie at the heart of the structural pressures facing local media. Several ideas for funding models have come from the US.
- 10.7 The *Huffington Post*, a liberal daily news site that rose to prominence in the 2008 presidential election, is involved in a number of funding projects. Initially set up with money from its founder, Arianna Huffington, it has subsequently raised money in the venture capital markets. *Huffington Post*'s most prominent funding project involves investigative journalism. There are also plans for developing more local editions.⁹⁸
- 10.8 Philanthropy plays an important role in the US. A major example of this is the Knight Foundation, a foundation devoted to promoting journalism, with a particular emphasis on innovation in delivery.
- 10.9 But foundation funding brings problems of accountability. Both the *Huffington Post* and *ProPublica* have faced criticism that their left-leaning skew would bring unwelcome bias into journalism funded by third-party or public money.
- 10.10 Other non-profit organisations have emerged to support news media. Examples include Public Press (a non-commercial daily web/print/broadcast collaborative news project owned by Independent Arts and Media of San Francisco and the Centre for Independent Media (a non-profit organisation that owns a network of state-based online news sites).
- 10.11 There are different views on whether local and regional media groups in the UK will be able to effectively monetise digital content in the future. There is clearly a business model for high quality specialist content, such as some of that provided by the *Financial Times* and the *Economist*, but no model has yet emerged for more general editorial content. Some stakeholders we spoke to said they thought that there could be a way of charging micropayments for time-sensitive content such as live sports reporting. While some media groups have indicated that they will charge for online content, other groups have suggested that this would be difficult. Some local media groups already own national classified advertising vehicles, which have compensated to some extent for declining classified revenues from their own newspapers and websites.
- 10.12 While there has been discussion about the potential for national newspapers to introduce charging for premium content on websites during 2009, there has been relatively little discussion about monetising online local and regional content in this way. However, one of the newspaper groups in our case study areas, the *Irish News*, in Belfast, operates a subscription-based model for its website Irishnews.com. At the time of writing, in August 2009, a range of subscription packages was available, ranging from £3 for one day's access to the website to an annual subscription of £65⁹⁹.

⁹⁸ See, for instance, <http://www.huffingtonpost.com/chicago/> [Accessed 19 August 2009]

⁹⁹ See: <http://www.irishnews.com/subscribe.asp?tsub=sub&par=typ> [Accessed 3 August 2009]

In the US, new technology is opening up possibilities for ultra-local media

- 10.13 In the US, ultra-local media businesses are becoming increasingly established players in the provision of local news and information, especially in the context of local and regional newspaper closures.
- 10.14 J-Lab: The Institute for Interactive Journalism estimates that at least 800 community news websites have emerged since 2004.¹⁰⁰ For example, *The Local* was launched by the *New York Times* in March 2009, combining news and information contributions from *New York Times* journalists and community members.
- 10.15 The US has also seen the successful roll-out of a number of aggregator sites like EveryBlock (acquired by MSNBC in August 2009) and Outside In. These sites pull in data and information published elsewhere on the web and present it in a format which enables users to drill down to their block or neighbourhood. Typically, they include relatively little editorial and comment, although sites like Our Town are increasingly endeavouring to combine the two.
- 10.16 Reverse publishing is a trend that also seems to be emerging in some areas of the US. Some online publications print out their websites, leaving copies in coffee houses, libraries and other public places, to reach people who don't have access to online resources, or those who want to read a print publication in such a setting. This increases the reach of the content, helping to strengthen its social value by making it more widely available. The *Chicago Tribune* recently announced a further expansion of its Triblocal initiative, which now spans 36 websites and six weekly newspapers with a circulation of just over 100,000. There are many other examples.
- 10.17 Technological solutions also allow readers to print their own publications from material they find across the web, or write themselves. These include services such as Zinepal, Printcasting, iNews and FeedJournal, all of which allow people to personalise their news consumption.
- 10.18 US local media providers are actively building local content for mobile platforms. While mobile phones increasingly have full web browsers, enabling users to access standard online local content, as in the UK, some US local and regional media firms have developed mobile websites with tailored content, including video. There are also a growing number of applications for mobile platforms, including the iPhone. Software on smartphones, can potentially offer location-based services i.e. content and services relevant to the locality in which the handset is being used.

Community and ultra-local media are also beginning to make an impact in the UK

- 10.19 In the UK, pressures on traditional business models, and changes in the way Government delivers services, may encourage community and ultra-local media to take on roles traditionally carried out by commercial organisations. For example, investigative journalism might complement (or, as in some US communities, replace) existing provision, and community media organisations could fulfil roles in the public sector (such as the delivery of training and education).
- 10.20 Community and ultra local media outlets are also well placed to deliver media literacy in a range of forms, including content creation, critical appreciation, public service announcements, the skill to interrogate public data in order to make better-informed

¹⁰⁰ <http://edition.cnn.com/2009/TECH/05/01/future.online.news.hyperlocal/index.html> [Accessed 19 August]

decisions about where – and how – to live, and the ability to hold local public bodies more effectively to account.

10.21 Individuals or groups intending to set up a community or ultra-local media website may need to develop basic media literacy skills, for instance producing a website or accessing tools such as Google Analytics (enabling them to get greater insight into their audience). Similarly, intelligent use of RSS feeds would enable community and ultra-local websites to automatically populate areas of their website with material from local councils, PCTs or other agencies of interest to their audiences.

10.22 Online community media may also have a role to play in training volunteers for traditional community broadcast media. For example, applicants for community radio licences may have gained experience and production skills at an online-only radio station, or groups interested in running community local television might first gain experience in production and journalism techniques by operating an online video site.

Community and ultra-local media face funding challenges

10.23 The community and ultra-local media sector has a diverse funding and support base. Funding comes from a range of sources, including funding specific to community media.

Figure 65: Examples of sources of support to the community media sector

| | Local and central government | Public bodies | Other | Media sector |
|--|---|--|---|---|
| Generic sources of support for the third sector | <ul style="list-style-type: none"> Grants from: <ul style="list-style-type: none"> Central Government funding Devolved administrations Local authorities European Union | <ul style="list-style-type: none"> Regional Development Agencies (RDAs) Learning and Skills Councils FE and HE sector | <ul style="list-style-type: none"> Public donations and subscriptions Volunteer time Funding from private benefactors Grants from Philanthropic trusts and Open source software Sponsorship from commercial organisations | |
| Community Media targeted | <ul style="list-style-type: none"> DCMS Community Radio fund Welsh Assembly Government Community Radio Fund | <ul style="list-style-type: none"> Arts Council Resources from British Universities Film and Video Council | | <ul style="list-style-type: none"> In kind support via partnerships with traditional media organisations e.g. BBC Partnerships 4iP fund Collaboration within community media community |

Source: Ofcom analysis

10.24 Some stakeholders have suggested that a basic ultra-local website can be run for £15 per month, including hosting and domain name registration fees, and built using freely available tools and software platforms. However, the costs of providing online ultra-local media can increase as site functionality increases, especially if services

such as streamed video are required. We note that the Community Media Association offers a streaming service to the sector: *Canstream*¹⁰¹.

- 10.25 However, there remain a number of funding challenges. These include the often short-term nature of grants, issues of independence from funding organisations (e.g. local authorities), and reduced funding availability, as grant-giving organisations face challenging funding settlements.
- 10.26 It is difficult for community media to quantify their impact in order to make a case for funding. The Office of the Third Sector at the Cabinet Office is working on a social return on investment (SORI) methodology as a way of identifying and quantifying the impact of third sector organisations.

There are a range of views on the future shape of local and regional media

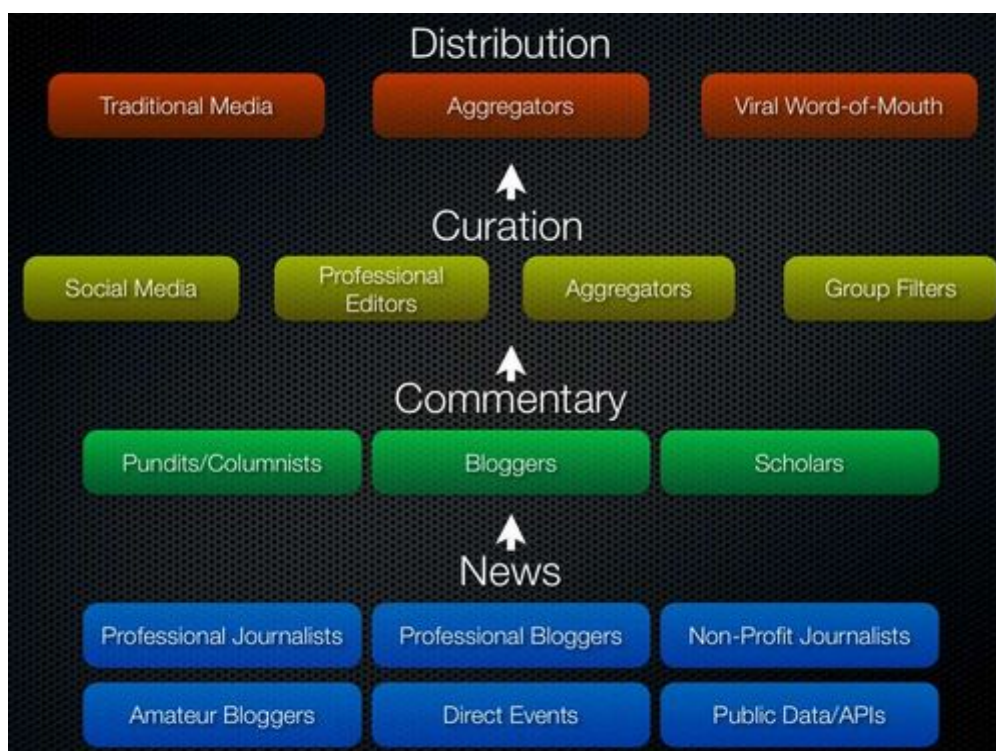
- 10.27 There are a range of views on how the sector may evolve in the future, and the role of new media in displacing traditional industries.
- 10.28 The author and media commentator, Clay Shirky, has compared the current crisis in the US with the advent of the printing press in the 1500s. He makes the point that society doesn't need newspapers, but it does need journalism, and argues that journalism has always been subsidised; the current newspaper model has served society well for over 200 years. In the future, a new model of subsidy will need to be found, whether this involves sponsorship, grants or endowments, or commercial revenues¹⁰².
- 10.29 On the other hand, the author and hyper-local media expert, Steven Johnson, foresees a world in which ultra-local news and information become more widely available than ever before¹⁰³. The internet is already able to fulfil the enormous demand for ultra-local news in ways that newspapers have never been able to do. But discoverability and trust are serious barriers to consumers accessing content which is relevant to them. In a fully digital world, Johnson sees the role of the newspaper as an authoritative guide to help consumers find all the useful information that is proliferating out there 'in the wild'.
- 10.30 Johnson sets out an eco-system (Figure 66). Local content would be delivered with far fewer fixed costs, relying on networks of volunteers and interested groups. But there would still be room for professional journalists, a smaller cadre of whom would be sustained by the reduced revenue streams available through this type of distribution model.

¹⁰¹ <http://www.commedia.org.uk/canstream/> [Accessed 19 August 2009]

¹⁰² Newspapers and thinking the unthinkable, Clay Shirky, March 2009 See: <http://www.shirky.com/weblog/2009/03/newspapers-and-thinking-the-unthinkable/> [Accessed 12 August 2009]

¹⁰³ Old Growth Media and the Future of News, Steven Johnston, Speech to South by Southwest conference, March 2009 See: <http://www.stevenberlinjohnson.com/2009/03/the-following-is-a-speech-i-gave-yesterday-at-the-south-by-southwest-interactive-festival-in-austiniif-you-happened-to-being.html#more> [Accessed 12 August 2009]

Figure 66: Future eco-system for delivery of local news in the US



Source: Steven Johnson: Old growth media and the future of news

10.31 There are also different views on the need for public intervention in the market. Martin Moore of the Media Standards Trust has identified three ‘camps’ in the debate about how local media can be supported¹⁰⁴:

- A ‘Free the Corporations’ camp: this is represented by major newspaper organisations which believe that the way to solve the current problems is to liberalise competition and ownership rules.
- A ‘Don’t Free the Corporations’ camp: this is represented by the NUJ, some media commentators and at least 90 MPs. This group argues that deregulation will simply encourage news organisations to continue along existing tracks – namely, cutting editorial resources, centralising editorial and production and shedding jobs. Some in this group have argued for public subsidies.
- A ‘Survival of the Fittest’ camp: this is represented mainly by commentators who support new media innovation (see above). This group does not rule out intervention, but would not direct it at the ‘old industries’. The emphasis should be on innovation and experimentation, to see which new models work within a basically free-enterprise framework.

10.32 In the remainder of this section we have set out some of the different approaches and arguments put forward by stakeholders in relation to these issues. Most of them relate to the need to maintain a healthy local media sector in order to deliver democratic benefits to citizens, rather than to sustain shareholder-driven businesses.

¹⁰⁴ Martin Moore: “Whatever local news funding model you support, if we don’t know what’s out there we won’t know what’s working”. (MST blog 27 May 2009) <http://mediastandardstrust.blogspot.com/>

They do not necessarily represent the views of Ofcom, and any decision to give public support for local and regional journalism is for Government, not Ofcom.

Public subsidies

- 10.33 Intervention in the form of direct funding of local and regional media has traditionally been limited in the UK to the BBC's local and regional TV and radio services, which are funded through the licence fee, and newspapers in the UK have traditionally been free from state intervention. However, given the current challenges faced by local and regional newspapers, some, including the Professor of Journalism at City University, Roy Greenslade, and the Editor in Chief of the Guardian, Alan Rusbridger, are proposing that local and regional newspapers should receive public funds, on the grounds that journalism at the local and regional level is a public good. The Press Association has also suggested that subsidies may be appropriate to fund local court and council reporting.
- 10.34 Some countries, including France and Sweden, have already adopted subsidies for local and regional newspapers; for example, in March 2009, the French president announced that all 18-year-olds would receive a subscription to the print newspaper of their choice, and announced subsidies for newspaper delivery.
- 10.35 The Reuters Institute at the University of Oxford has recently published research on the subsidies supporting local journalism, including work on the range of subsidies in Sweden¹⁰⁵.

Figure 67: Case study of public subsidies in Sweden

The local and regional media landscape in Sweden

Plurality in the provision of local newspapers is supported in Sweden through a system of subsidies. As a result, most local markets have at least two or more daily papers owned by different companies. Most markets also have weekly papers. There are some similarities between the UK and Swedish media landscapes, and some significant differences.

Newspapers: Newspaper readership is high and is dominated by morning newspapers (75% of the Swedish population reads a morning paper, compared to 45% in the UK). Most morning papers are local/regional, not national – Sweden's four 'national' morning papers and two evening tabloids mainly serve Stockholm, and together account for only one-third of Swedish newspaper circulation (the UK figure is 75%). Morning papers are generally delivered to homes, and not sold face-to-face. There are also local evening dailies; papers published bi- or tri-weekly (dubbed 'semi-dailies'); and weeklies.

Television: Licence-funded SVT runs 18 regional stations, which produce 15 minutes of local news in 'windows' on the national channel. The commercial terrestrial channel (TV4) has an obligation to produce daily three-minute bulletins in 24 locations. Ultra-local public access television is available to 70% of households.

Radio: State-owned Swedish Radio is based on a national scale, but with 26 local stations broadcasting content in 'windows' on one of the national stations (Channel P4). Commercial radio does not provide any local programming, following take-overs and mergers which have reduced ownership to just two national conglomerates. There are 177 community radio stations, with an overall daily reach of 3% - but these do not carry local news services.

¹⁰⁵ Gustafson, Ornebring & Levy (2009) *Press Subsidies and Local News: The Swedish Case*, [Internet] Oxford. Available from: Reuters Institute for the Study of Journalism, University of Oxford <http://reutersinstitute.politics.ox.ac.uk/publications/risj-working-papers.html>

Subsidies for local newspapers

The subsidies used to support local papers are delivered in three ways. They are targeted mainly at supporting the second biggest paper in a particular market.

The Production Subsidy is given directly to 'number two' (usually morning) daily papers, with smaller amounts given to paid-for weeklies and 'semi-dailies'. Dailies qualify for subsidy if they have less than 30% of the market, and weeklies if less than 25%. Papers must have at least 51% editorial content. Subsidy is paid for from a 3% tax on advertising, and can amount to 15-20% of turnover for some papers. There are no restrictions on how it is spent.

The Joint Distribution Subsidy is a small per-copy payment made where a dominant newspaper and a rival are distributed through the same home-delivery network. The payment is made for both parties in recognition of the Swedish consumer's expectation that morning papers are delivered through the door. The subsidy was introduced to remove this potentially expensive barrier to entry for smaller rivals.

Preferential Loans are given from a government fund to invest in new technology. Preference is given to competing newspapers that co-operate in joint production ventures. As a result, shared presses and systems are now the norm.

Source: Gustafson, Ornebring & Levy (2009) *Press Subsidies and Local News: The Swedish Case*, Oxford

10.36 Groups representing the newspaper industry itself (including the Newspaper Society and the Society of Editors) remain protective of the independence of the press. They are generally resistant to the notion of public money being used to support local journalism. Many express an inherent suspicion of 'strings' being attached to any such funding.

Targeted tax breaks

10.37 Andrew Currah¹⁰⁶ writes that if the case can be made for a 'democratic deficit', caused by gaps in the provision of journalism, then carefully-targeted tax breaks might help to bridge funding gaps. Relief from corporate taxes could provide incentives for specific investments in news publishing, and so indirectly subsidise the provision of local and regional content which serves public purposes. Such an approach could apply across different media platforms. However, tax breaks do not benefit firms which are loss-making.

10.38 One immediate issue for newspaper groups, for example, is that the public's increasing use of the internet to view previously paid-for content is not generating sufficient revenue to cover the costs of its production. The decline in income from traditional advertising is not being offset by new online revenue streams. Tax relief could be used to support those aspects of the journalism value chain, such as training, which are most vulnerable to disinvestment by businesses facing structural pressures.

10.39 The NUJ, and some media companies, have said that fewer trainees are being recruited as economic pressures increase. But training does not just apply to young

¹⁰⁶ Currah, A. (2009) *Navigating the Crisis in Local and Regional News: A Critical Review of Solutions* [Internet] Oxford.

Available from: Reuters Institute for the Study of Journalism, University of Oxford
<http://reutersinstitute.politics.ox.ac.uk/publications/risj-working-papers.html>

entrants to the news industry. Media businesses are aware of the need to invest in new technologies, new systems, and new delivery methods if they are to remain competitive and relevant. But efficient introduction often involves significant costs to train staff in how to use the new technology. Francois Nel, a journalism lecturer at Central Lancashire University, has proposed a system of corporate tax relief on payroll for companies investing in training. He suggests that 40% of a typical newspaper's operating budget is payroll, and that targeted tax relief might free up funds that could be 'ring-fenced' for training initiatives.

- 10.40 An alternative might be to increase capital allowances for investment in new technology to benefit firm cash flows.
- 10.41 Currah suggests that tax relief might help to fund specific news-gathering functions. It could be measured in terms of editorial posts; e.g. tax relief could be applied to the cost of a social affairs, community or even municipal correspondent. Under such a regime it would be necessary for any legislation to identify which roles qualified for the relief, and it might be difficult to define the civic and non-civic benefits of particular editorial roles. Some would suggest that these functions are core to local media businesses in any event, and should not be publicly funded.

Trusts and charities

- 10.42 Alternative business structures offer ways for local media companies to deliver public value, through trusts or charitable status.
- 10.43 There is already one high-profile example of a trust arrangement being used to support a newspaper. The Scott Trust was established as a profit-seeking body to support and preserve the independent journalistic principles of *The Guardian* newspaper. Trust status means that assets must be directed towards this specific function, as laid out in its constitution. Although now incorporated as a limited company, the Scott Trust retains its original aims to this day.
- 10.44 Translating the trust concept to local media might require an initial injection of capital – possibly through state funding. A trust would then shelter specific aspects of journalism from the normal profit and loss pressures experienced by media businesses. It might be possible to establish a trust as a charity. This would have considerable tax advantages because profits directed to a charitable cause would be exempt from income tax. But all assets in a charitable trust would have to be directed towards the stated mission.
- 10.45 A stumbling block to the award of charitable status might be the difficulty in defining the aims of such a charity, in terms of a civic function. The Charity Commission has traditionally exercised stringent interpretations. To date, such charitable status has been applied in the UK only to specific training and community media functions. An exception is the *Maidenhead Advertiser*, which is owned by a charitable trust in support of its community media objectives. Other examples include 'talking newspapers' for the blind.
- 10.46 Justification for forms of journalism to be defined as charitable objectives would need to centre around specific aspects, such as contribution to citizenship, community life, education, democracy or the voluntary sector. Once achieved, oversight by a Board of Governors and the regulation accorded by the Charity Commission should ensure that the stated public benefits are delivered.

- 10.47 Charities need to demonstrate political impartiality, which might be seen as a barrier to freedom of expression. Partisanship or political campaigning, for example, would not be allowed. But this restriction may be less of an issue for local media than it would be for the national press. Of course, trusts may be established with or without charitable status – although tax benefits would not apply to a non-charitable trust.
- 10.48 A more important question is whether this kind of business model is the best means of supporting the civic functions of journalism. Although a charitable trust could shelter its pure journalism from the ups and downs of commercial media business, it is unclear how such a charity would raise money.

Community interest companies

- 10.49 ‘Community interest companies’ (CICs) were introduced by the Government in 2005 to allow business people to combine the benefits of a limited company with those of having a defined civic purpose; in other words, a half-way house between a charity and a business. CICs were designed to avoid the tight financial constraints imposed through having charitable status, while indicating that the organisation intended to play a positive role in society.
- 10.50 There is no direct tax benefit, but the designation enables a CIC to present itself publicly as a body with wider community aims than a pure business. There are limits on how much profit can be returned to investors. But, at the same time, money can be raised and invested in a more business-like way than for a charity.
- 10.51 To qualify for CIC status, a body must demonstrate the basis of a community mission, such as the ways in which civil society might benefit. This is reviewed annually by the CIC regulator. In theory, this model could apply to the provision of local and/or regional news to a specific community via any chosen platform. For example, it might be demonstrated that commercial models were failing to deliver in particular locations. This might be shown through evidence of newspaper closures or significant cut-backs.
- 10.52 Current examples within the media industry – although not in news – include youth and community media bodies, such as Big Voice Media in South Yorkshire, which was formed to promote film, animation, photography and print skills among young people. Like charities, CICs are not allowed to promote politically-motivated campaigning, so this status may not appeal to some media organisations.
- 10.53 Any CIC venture in news media would need to reinvest the bulk of its profits into community interest functions. However, the rules governing CIC models would enable a publisher to spin off particular parts of its business to fulfil the criteria, leaving the rest to operate purely commercially.

Digital participation and media literacy

- 10.54 Digital participation is concerned with “Increasing the reach, breadth and depth of digital technology use across all sections of society, to maximise digital participation and the economic and social benefits it can bring”¹⁰⁷. It includes media literacy (the ability to access, understand and create communications in a variety of contexts¹⁰⁸),

¹⁰⁷ *Digital Britain Final Report*

¹⁰⁸ Under Section 11 of the Communications Act 2003, Ofcom has a duty to promote media literacy. See http://www.ofcom.org.uk/advice/media_literacy/ for further information

digital life skills and digital inclusion issues, all of which may have an impact on the development of local media.

- 10.55 UK internet take-up is currently around 70% of households, with take-up of broadband close behind at 67%. However, of the 30% of adults who do not have access to the internet, only 5% say they intend to get it in the next six months, and 13% say they have no intention of getting it, even if it was free¹⁰⁹. The majority of those with no intention to take it up are in older demographic groups. This suggests that universal internet access may be some way off in the UK, without significant regulatory intervention, and that the rate of growth of both internet use and advertising may slow down significantly.
- 10.56 On the other hand, recent Government policy has highlighted the benefits of universal access and has set a target for universal broadband availability by 2012. Under proposals developed by the Government, the ‘resistor’ group could be encouraged to take up the internet by a more proactive digital participation strategy, involving the Government, Ofcom and other stakeholders.
- 10.57 In particular, the Government has asked Ofcom to lead a consortium of stakeholders to promote digital participation, including industry and education groups such as UK Online centres. In particular, the Government’s *Digital Britain Final Report* envisaged that the consortium would engage with existing networks and organisations, including some volunteer groups at the local level.
- 10.58 In the longer term, greater levels of access and interest in online local content and services, including interest and skills in creating local online content, may lead to a rich online local media ecology. In this scenario, informed citizens and consumers will seek out and consume content, including quality journalism, from a range of sources, including commercial organisations and community groups. This content, where relevant, may be monetised in a range of ways.

The role of the BBC

- 10.59 Local and regional programming remains one of the core BBC purposes: “representing audiences in the UK’s nations, regions and communities”. The BBC remains a major public intervention in the local media market through its television, radio and online services, across the nations and regions of the UK. As we state in our *Second PSB Review*, we believe that the BBC should remain the cornerstone of PSB provision in the UK.
- 10.60 In interviews, industry stakeholders offered a range of views on the future role of the BBC. On one hand, some felt that the BBC could play a part in stimulating the market through its network of programme-making and journalistic resources, as well as its popular websites. Others felt that the BBC is already crowding out commercial players and that its market power should be curtailed. There was scepticism around the value of the BBC’s proposed partnerships, from the newspaper industry in particular.
- 10.61 The BBC Trust has identified a gap between the importance people attached to the purpose “representing the UK’s nations, regions and communities” and the BBC’s performance in delivering it. This ‘purpose gap’ identified in the *Purpose and Remit*

¹⁰⁹IPSOS Mori (2009) *Accessing the Internet at Home*, IPSOS Mori, June 2009. Available from <http://www.ofcom.org.uk/research/telecoms/reports/bbresearch/bbathome.pdf> [Accessed 4 August 2009]

Survey conducted by the BBC Trust in 2007 was one of the main reasons for the BBC Executive's application to launch a dedicated local video service across the UK¹¹⁰.

- 10.62 Following an extensive consultation, the BBC Trust concluded in February 2009¹¹¹ that the public value generated by the local video proposal was not sufficient to outweigh the negative market impact.
- 10.63 The Trust recommended instead that the BBC should focus on a series of smaller, targeted interventions based on existing services. In August 2009 the BBC Executive announced that it would invest nearly £50m to 2013 in nations and regions services, including:
- An annual 'State of the nation/region' journalism initiative
 - Additional regional/national news bulletins at the weekend
 - Improved linear TV and radio news services, including coverage of local government within regional and nations TV news
 - An increase in non-news factual programming in the nations, and geographically targeted sports coverage
 - Radio news 'opts' in Wales and enhancement of six 'opts' in Scotland
- 10.64 The BBC has also announced further initiatives for the local media sector. These include:
- An extension of the ITV regional news partnership proposals to other local news providers which might be interested in providing regional news on Channel 3 as part of an independently funded news consortium.
 - Sharing some audio content with community and local radio operators.
 - Making TV footage available for use by local TV companies.
 - Offering open access to the public for its College of Journalism.
 - Opening up its iPlayer technology, making it easier and cheaper for other players to build their own powerful video-rich websites.
- 10.65 In June 2009 STV concluded a MOU with the BBC under which it will explore shared resourcing for regional TV news, including studios and other accommodation. The agreement may also result in the sharing of some video and outside broadcast news resources. STV has also indicated an interest in accessing iPlayer technology via the proposed iPlayer federation.
- 10.66 In July 2009, the BBC announced proposals to share its branded video content free of charge with national newspaper websites operated by DMGT, Guardian Media

¹¹⁰ See: BBC Management's assessment of the public value of its Local Video proposals, BBC Executive, see: http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/local_video_mgmt_pva.pdf [Accessed 14 August 2009]

¹¹¹ Local Video Public Value Test Final Conclusions, February 2009, BBC Trust – see: http://www.bbc.co.uk/bbctrust/consult/closed_consultations/local_video_decision.html

Group, Independent News and Media and the Telegraph Media Group. Other organisations, including certain newspaper groups, the PA and ITN have expressed concern at the proposals.

- 10.67 In addition, the BBC and leading commercial radio groups have announced the creation of the Radio Council – a new forum for discussion between the BBC and the commercial radio sector. The council aims to promote radio as a platform for audiences and advertisers, and its agenda is likely to include the iPlayer, DAB roll-out and digital audience measurement.
- 10.68 In its findings in relation to the BBC's proposed local video service, the BBC Trust recognised the continuing need to balance the public value that the BBC can contribute to the sector, against its possible market impact. We note that in the future, the corporation could deliver significant value to the sector through partnerships with a range of organisations, both commercial and not-for-profit.

The role of Channel 4

- 10.69 In contrast to the BBC, Channel 4 is not active in broadcast media at the regional and local level, and therefore the role it may play in the evolution of local and regional media is likely to differ substantially from that of the BBC, given Channel 4's role in supporting nations and regions productions, rather than broadcasting regional services. Channel 4's strength at collaboration with external content providers and its online venturing experience suggest that it could play an important role in online local and regional media. In the *Digital Britain Final Report*, the Government outlined its intention to give Channel 4 a specific remit in relation to new media, suggesting that the role Channel 4 currently fulfils in online local and regional media may increase in the future.
- 10.70 Channel 4's online social venture fund, 4iP, is already investing in projects with local and regional aspects. While developing new online tools such as Audioboo (an audio-blogging platform), the 'Talk About Local' project, funded by 4iP and Screen West Midlands, will oversee the training of 3000 community activists in a range of online skills (in particular blogging) through UK online centres. 4iP is also investing in nations' online content via 'Sluggo o'Toole' – a website on Northern Ireland politics and culture.
- 10.71 4iP and Screen West Midlands are investing in a community investigative journalism portal: Help Me Investigate¹¹². The site (undergoing private beta testing in early July 2009) aims to provide community journalists with a facility to initiate and collaborate on investigations of public interest, including the activities of local public bodies. While the web-based nature of the tool allows for rapid collaboration and sharing of information between groups and individuals, it has the potential to support community journalism across all platforms, including community radio and television, as well as online.
- 10.72 Channel 4's new remit, outlined in *Digital Britain*, creates an opportunity to extend the scope of its activities in the ultra-local media sector, particularly in helping to empower individuals and communities and challenging authority at a local level. Channel 4's activities could include:
- Creating tools that enable citizens to analyse public data in order to hold local institutions, such as councils, PCTs and the local police, to account.

¹¹² <http://helpmeininvestigate.com/> [Accessed 19 August 2009]

- Providing tools such as Help Me Investigate, which enable consumers to make more informed decisions about accessing services in their area, or help them to improve their health, happiness and general wellbeing.
- Identifying gaps in local media reporting and commissioning tools to enable citizens – and journalists – to plug these gaps.
- Promoting new online behaviours, such as the collaborative networks which initiatives such as Help Me Investigate will generate.
- Finding new ways to present these findings, including visualisation and mapping technologies.
- Through training and promotion, enabling more local users of national services such as Groups Near You or They Work For You, so that these tools can be used by a wider audience at a ultra-local level,
- Helping ultra-local websites to become more visible and less self-contained, by improving use of links, metadata and tags on their pages so they can be more effectively captured by search engines, and feature more prominently in search results pages.

10.73 Decisions concerning Channel 4's governance, role and remit are for Government and Parliament.

Conclusions: reflections on a changing sector

10.74 Since concluding our *Second PSB Review*, the debate surrounding the provision and role of local, regional and national media has increased in prominence. We intend this report to help that debate.

10.75 This report is part of a programme of work at Ofcom relating to regional and local media. Separately, we will be publishing our recommendations to the Secretary of State on the Media Ownership Rules, and we will issue a Statement on localness in radio regulation. We continue to fulfil our duties in relation to spectrum release and management, commercial and community radio licensing, and on television, our duties towards PSB at the sub-UK level. We will carry out further work in this area if, and where, we are required to.

10.76 The local and report media sector is undergoing a period of profound change, both in its production and its consumption, as businesses are faced with the pressure to adapt in a dynamic environment. How they respond to these challenges and opportunities will vary substantially between firms and by geographic area.

10.77 After meeting stakeholders from across the local and regional media landscape, we believe that the future of a vibrant and socially valuable local and regional media sector is shared across individuals, community groups, commercial providers of content and platforms, the PSBs and public bodies. There is no 'one size fits all' answer to the challenges and opportunities facing local and regional media. In this environment, new technologies and new ways of thinking about 'localness' and content may combine to change conceptions of what it is to create and consume local and regional media. The prize is great: a sustainable and diverse local and regional media sector that is an integral part of healthy and vibrant geographic communities throughout the UK.

Annex 1

Overview of Ofcom's statutory duties for this report

Introduction

- A1.1 As explained in Section 2 of the main document, while we are conducting this analysis on the basis of our statutory duties, we have to consider local and regional media in the context of a wider media ecology which touches upon areas that are outside Ofcom's remit, such as local journalism, local and regional newspapers¹¹³ and the internet¹¹⁴.
- A1.2 For the avoidance of doubt, Ofcom's statutory remit does not cover the regulation of newspapers or the internet, or journalism.¹¹⁵ As such, our presentation of these issues in this document is for discussion purposes only, and to provide a reflection of the current local media landscape.

Ofcom's statutory duties

- A1.3 Ofcom is the independent regulator for the communications sector in the United Kingdom. It has a range of statutory duties which relate directly or indirectly to the local media sector. Ofcom's remit in this area is set by the Communications Act ("the 2003 Act"), and specifically by the provisions in the 2003 Act concerning public service television broadcasting, local radio, spectrum, and the media ownership rules (which include local-cross media ownership rules and local radio ownership rules). The Broadcasting Act 1990 ("the 1990 Act") and the Broadcasting Act 1996 ("the 1996 Act") also contain provisions relevant to radio and television broadcasting; in particular, the 1990 Act gives Ofcom duties and powers relating to localness in radio. These provisions are explained in more detail below.

General duties

- A1.4 Ofcom's principal duties, set out in section 3(1) of the 2003 Act, are to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate, by promoting competition.
- A1.5 In carrying out its functions in light of those duties, Ofcom is required to secure a number of things, three of which are particularly relevant to this report, namely:

¹¹³ The editorial content of newspapers and their websites is regulated by the Press Complaints Commission (<http://www.pcc.org.uk/index.html>).

¹¹⁴ During the passage of the Communications Act 2003, there were calls for the internet to be included under Ofcom's remit and regulated as a "television licensable content service" (section 232 of the 2003 Act); however, this was resisted given the challenges in regulating a system which does not follow the traditional system of linear broadcasting. Ofcom does however have a duty under section 11 of the 2003 Act to promote media literacy. Part of this duty is to bring about "a better public understanding of the nature and characteristic of material published by means of the electronic media". See http://www.ofcom.org.uk/advice/media_literacy/ for further information.

¹¹⁵ Ofcom has certain duties, including those relating to the media ownership rules and the media merger regime, which may involve the newspaper sector – see further below.

- To secure the optimal use for wireless telegraphy of the electromagnetic spectrum
- To secure the availability throughout the United Kingdom of a wide range of television and radio services of high quality and wide appeal
- To maintain sufficient plurality of providers of different television and radio services (section 3(2) (a), (c) and (d) of the 2003 Act).

A1.6 In addition, section 3(4) requires that Ofcom must have regard, where we think them relevant, to the following, among other things:

- The desirability of promoting the fulfilment of the purposes of public service television broadcasting (“PSB”)
- The desirability of promoting competition in relevant markets
- The different interests, so far as the use of spectrum is concerned, of all persons who may wish to make use of it
- The opinions of consumers in relevant markets and of members of the public generally
- The different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the UK and of persons living in rural and in urban areas

A1.7 Ofcom must also ensure that television and radio broadcast services meet minimum standards to provide adequate protection to the public, for example from offensive and harmful material. These standards are enshrined in the Ofcom Broadcasting Code¹¹⁶ which covers standards in programmes, sponsorship, fairness and privacy for television and radio.¹¹⁷

A1.8 Ofcom aims to take a strategic and evidence-based approach to regulation. In performing our principal duties, we must in all cases have regard to the principles of transparency, accountability, proportionality and consistency, as well as ensuring that our actions are targeted only at cases where action is needed (section 3(3) of the 2003 Act). We must also have regard to other principles appearing to us to represent best regulatory practice.¹¹⁸

Duties relating to public service television broadcasting

A1.9 As indicated above, in performing our principal duties under section 3 of the 2003 Act we are required to have regard, among other things, to the desirability of promoting the fulfilment of the PSB purposes in the United Kingdom. Ofcom must also have regard to the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and urban areas.

¹¹⁶ <http://www.ofcom.org.uk/tv/ifi/codes/bcode/bcode.pdf>.

¹¹⁷ The standard objectives contained in the Broadcasting Code are derived from sections 3(1)(a) and (b), (2)(e) and (f) and (4)(b)(g)(h)(j)(k) and (l), 319, 320, 321, 325 and 326 of the 2003 Act, and from section 107(1) of the 1996 Act.

¹¹⁸ See Ofcom’s statement of regulatory principles at www.ofcom.org.uk/about/sdrp.

- A1.10 Ofcom has a specific duty under section 264 of the 2003 Act to carry out a review of PSB at least once every five years. This requires Ofcom to report on the extent to which the public service broadcasters have fulfilled the purposes of PSB in the United Kingdom. Ofcom has an obligation to prepare its report on these matters with a view to maintaining and strengthening the quality of PSB in the United Kingdom.¹¹⁹
- A1.11 Section 264(4) of the 2003 Act sets out the purposes of PSB in the United Kingdom. When considering, reviewing and reporting on the extent to which these purposes are fulfilled by the relevant PSB services (defined as the BBC's television broadcasting services, services provided by the Welsh Authority, the national and regional Channel 3 services, Channel 4 and Five), Ofcom must have regard to a list of factors, a number of which relate to local issues, namely:
- That cultural activity in the United Kingdom, and its diversity, are reflected, supported and stimulated by the representation in those services (taken together) of drama, comedy and music, by the inclusion of feature films in those services and by the treatment of other visual and performing arts
 - That those services (taken together) provide, to the extent that is appropriate for facilitating civic understanding and fair and well-informed debate on news and current affairs, a comprehensive and authoritative coverage of news and current affairs in, and in the different parts of, the United Kingdom and from around the world
 - That those services (taken together) include what appears to Ofcom to be a sufficient quantity of programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the United Kingdom, and locally in different parts of the United Kingdom
 - That those services (taken together), so far as they include programmes made in the United Kingdom, include what appears to Ofcom to be an appropriate range and proportion of programmes made outside the M25. (See section 264(6))
- A1.12 Ofcom is obliged under section 263 of the 2003 Act to include conditions in the licences of commercial public service broadcasters to comply with obligations as to independent and original production, news and current affairs, regional production and regional programming, among others. There are similar obligations in an agreement between the Government and the BBC (the BBC Agreement).
- A1.13 As regards regional programming, section 287 requires Ofcom to include conditions in the individual Channel 3 licences that it considers are appropriate for securing a volume and range of high quality regional programmes (including regional news) which are of particular interests to persons living within each Channel 3-licensed area. A suitable proportion of these must be made in the area. Equivalent

¹¹⁹ We carried out our first PSB Review in three phases from November 2003 to June 2005 (http://www.ofcom.org.uk/tv/psb_review/), and our Second PSB Review in two phases from September 2007 to January 2009 (http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/psb2statement.pdf). Our statement published on 21 January 2009 following the Second PSB Review made clear that audiences value the provision of local content in the relevant PSB services but that further research was required to understand the broader level of interest in local television and other media more generally, and to assess the future viability of local media as a whole. It also identified regional television news (along with news in the devolved nations) as one of the key priorities of the future.

requirements apply to BBC1 and BBC2 (taken together), including regional news on BBC1, under the BBC Agreement.

- A1.14 As regards regional production, sections 286 and 288 require that a suitable proportion of programmes are made outside the M25, that these constitute a suitable range of programmes, and that a suitable proportion of expenditure is spent on producing these programmes in a suitable range of production centres. In the case of the licensed public service broadcasters, Ofcom has decided that the appropriate means of securing this objective is that licensees should be required to ensure that a specified proportion of the hours they transmit comprises programmes that meet the definition of 'regional productions' as set out in Ofcom's recently updated guidance: *Regional production and regional programme definitions*.¹²⁰ Ofcom has in general reached agreement with the BBC on a similar arrangement in respect of its public television services.

Duties relating to spectrum

- A1.15 Ofcom has a statutory duty to secure the optimal use for wireless telegraphy of the electro-magnetic spectrum and the availability throughout the UK of a wide range of electronic communications services (section 3(2)(a) and (b) of the 2003 Act). In performing those duties, Ofcom must, among other things, have regard to the different needs and interests of everyone who may wish to use the spectrum for wireless telegraphy (section 3(4) of the 2003 Act).
- A1.16 This duty requires us to consider whether and how spectrum should be made available for digital terrestrial television (DTT) services. As regards local TV on DTT, one of the options for its delivery (as set out in the Second PSB Review statement) is for operators to obtain spectrum suitable for television broadcasting available to the market as part of the UK's digital dividend (the spectrum which will be freed up as a result of digital switchover – the switch from analogue to digital television broadcasting).¹²¹

Duties relating to local radio

- A1.17 We have duties specific to radio broadcasting, which include the licensing of national, local, and community analogue radio stations and maintaining a range and diversity of local stations broadcasting local material. Speaking broadly, a mixture of statutory provisions and licensing controls have the effect of defining localness in terms of content, where stations can be based and where some programmes should be made.

¹²⁰ http://www.ofcom.org.uk/tv/ifi/guidance/reg_prod/.

¹²¹ Our strategic approach to awarding digital dividend spectrum is set out in the Digital Dividend Review ("DDR") Statement (DDR documentation is available on the Ofcom website at <http://www.ofcom.org.uk/radiocomms/ddr/>). In relation to local television, our approach is to auction geographically specific lots of spectrum that are suitable, but not reserved for, local television (See *Digital Dividend Review: geographic interleaved awards 470-550 MHz and 630-790 MHz: consultation on detailed award design*, 12 June 2008, <http://www.ofcom.org.uk/consult/condocs/ddrinterleaved/>). We have held two such awards, for lots covering Cardiff and Manchester respectively. Earlier this year, we consulted on proposals to align the UK's digital dividend with other countries in Europe. This would mean clearing additional frequency channels, creating a larger cleared block of spectrum (790-862 MHz, often referred to as the 800 MHz band). On 30 June 2009 we confirmed that we would clear the 800 MHz band (<http://www.ofcom.org.uk/consult/condocs/800mhz/statement/clearing.pdf>). This will affect how the digital dividend spectrum is packaged and awarded, and we expect to consult on packaging and award design for future awards of digital dividend spectrum in due course.

A1.18 The specific duties and functions Ofcom has in relation to the regulation of localness in radio broadcasting are set out in more detail below.

- Under section 85 of the 1990 Act, one of Ofcom's functions is the licensing of national, local and community analogue radio stations.¹²² This includes advertising, awarding and renewing those licences in accordance with Part III of that Act (as modified for the purposes of community radio¹²³), in particular sections 98 to 103A (for national licences) and 104 and 105 (for local services and as modified for community radio).
- Section 85 of the 1990 Act also requires Ofcom, in performing those functions, to secure the provision of a diversity of national analogue services (of which one must consist mainly of speech and another must consist wholly or mainly of non-pop music), and a range and diversity of local analogue services.
- We are further required, under section 314 of the 2003 Act, to ensure that programmes consisting of or including local material are included in local analogue radio services.¹²⁴ However, we need only do so, in the case of each such service, if, and to the extent (if any) that, we consider it appropriate in each case. Where such programmes are included in such a service, we are required to ensure that what appears us to be a suitable proportion of them consists of locally-made programmes. Section 314 also provides that Ofcom must draw up guidance as to how we consider these requirements should be satisfied. We must have regard to that guidance in carrying out our functions in relation to local analogue radio services. Our current guidance: *Localness on Local Commercial Radio Stations* can be found at <http://www.ofcom.org.uk/radio/ifi/rbl/car/localness/>.
- Ofcom's functions also include setting the conditions in local radio licences, including those conditions that we consider appropriate, taking into account our duties under, among others, the 1990 and 2003 Acts (section 87(1) of the 1990 Act). And they include varying licence conditions, either with the licensee's consent (where the variation relates to the licence duration) or after giving the licensee the chance to make representations (section 86(5) of the 1990 Act).
- More particularly, Ofcom's functions include regulating the character of national and local analogue radio services. Under section 106 of the 1990 Act (as modified for community radio), we must include in licences such conditions as appear to us to be appropriate for securing that the character of the licensed service, as proposed by the licence holder when making its application, is maintained during the period for which the licence is in force.
- The guidance referred to above, and these statutory requirements, are reflected in the character of service licence conditions, which set out the format of the service the local radio licensee must broadcast. These include requirements

¹²² It is a criminal offence to provide analogue radio broadcasting services without a licence (section 97 of the 1990 Act).

¹²³ For community radio, see further below.

¹²⁴ In relation to digital radio, Ofcom does not have powers to regulate localness directly. For example, when awarding a local multiplex licence, we must take into account the extent to which the digital sound programme services proposed to be included on the multiplex would cater for the tastes and interests of people in the relevant locality (section 51(2)(d) of the 1996 Act). But, there are no provisions regulating specifically the extent to which material broadcast on digital radio is about, for and/or made in a particular locality.

about the local content of broadcast material, where stations are based and where programmes are made.

- Ofcom also has the function of regulating changes to licence conditions relating to characteristics of service. Under section 106(1A) of the 1990 Act, we can consent to changes to the character of licensed services if, but only if, we are satisfied that:
 - The change would not substantially alter the character of the service
 - The change would not narrow the range of programmes available by way of relevant independent radio services to persons living in the area or locality for which the service is licensed to be provided
 - In the case of a local licence, the change would be conducive to the maintenance or promotion of fair and effective competition in that area or locality, or
 - In the case of a local licence, there is evidence that, among persons living in that area or locality, there is a significant demand for, or significant support for, the change
- Section 106(1B) says that the matters to which we must have regard in determining the character of a service provided under a local licence include, in particular, the selection of spoken material and music in programmes included in the service.
- Another of Ofcom's relevant functions is to set the coverage area for national, local and community analogue radio services:
 - Under section 106(2) of the 1990 Act Ofcom must include in national and local licences conditions requiring the licensee to secure that its service serves as much of the licensed area or locality as is reasonably practicable
 - Under section 106(3) we must include in national licences conditions enabling Ofcom to require the licensee to provide the licensed service for additional areas beyond the minimum area we have previously determined, and
 - Under section 106(4) we can, if we think fit, vary a local licence to authorise the licensee to provide the licensed service for any additional area or locality adjoining the area or locality for which that service has previously been licensed to be provided. But, we can only do this if it appears to us that doing so would not result in a significant increase of the licensed area or locality for the service in question. Or, that the increase that would result is justifiable in the exceptional circumstances of the case
- Ofcom also regulates other aspects of national, local and community analogue radio services. These include rules restricting who may hold radio broadcasting licences and on the number of local commercial analogue licences a person may hold (under Schedule 14 of the 2003 Act and The Media Ownership (Local Radio

and Appointed News Provider) Order 2003),¹²⁵ as well as restrictions on licences for digital broadcasting.

- A1.19 In its Digital Britain Final Report, the Government has proposed that certain changes be made to the regulation of localness in local commercial analogue radio, and has asked Ofcom to consult on them. These changes include a reduction in the number of hours of locally produced material in Ofcom's guidance under section 314 of the 2003 Act. Another example is the proposed changes to legislation that will result in new definitions of the areas which determine and measure the concept of localness.
- A1.20 Ofcom published a consultation on the 31 July on the way in which we propose to change our policies on the regulation of localness in local commercial analogue radio, including the ways in which we propose we would exercise new legislative powers referred to in the Digital Britain Final Report *if* they are granted to us by Parliament.¹²⁶

Community radio

- A1.21 Community radio stations are a type of not-for-profit radio service, designed to operate on a small scale and to deliver social gain to one or more communities. The legislation to enable community radio services to be licensed was introduced in 2004, and the first station launched in 2005.
- A1.22 Community radio serves a wide range of communities; the majority serves a general audience in either an urban area (18%) or a town / rural area (41%). However, many others serve smaller communities of interest, including those aimed at minority ethnic groups (14%), young people (9%) and religious groups (7%). 162 of the stations awarded a licence are in England, 14 in Northern Ireland, 20 in Scotland and nine in Wales.
- A1.23 Community radio services are licensed under the terms of three different pieces of legislation: the Community Radio Order 2004, the 2003 Act and the 1990 Act (the legislation). The legislation sets out the requirements for community radio, including that services are non-profit-distributing, are provided for a (local) target community, deliver social gain objectives, invite access and participation in the service, and are accountable to the target community.
- A1.24 When a group applies for a community radio licence, it sets out its proposals for how it will satisfy these various requirements. The legislation further requires that an applicant's proposals are secured in the licence, should one be granted, to ensure that its proposals are delivered. The way we do this is by summarising an applicant's proposals in a 'key commitments' document, which forms part of the licence. This is agreed with each licensee prior to the station commencing broadcasting.
- A1.25 This key commitment document includes:
- A description of the community to be served
 - A summary of the character of service (a short description of the station's aims)

¹²⁵ SI 2003/3299.

¹²⁶ See <http://www.ofcom.org.uk/consult/condocs/radio/condoc.pdf>.

- A description of the programme service
 - Social gain objectives (including how the station will satisfy the mandatory social gain requirements set out in the relevant legislation, and any other social gain objectives of the service)
 - Access and participation arrangements, and
 - Mechanisms to ensure accountability to the target community
- A1.26 The legislation allows licensees to request a change to their 'key commitments' and sets out criteria for considering changes to 'key commitments', but also gives Ofcom discretion to reject changes even if one of these criteria is satisfied.
- A1.27 As indicated above, the legislation also puts a limit on the amount of income that can be generated from on-air advertising and sponsorship. For most stations this limit is 50%; however, two stations have a lower limit (25% and 10%) and a further 18 stations are not allowed to receive any income of this type. The additional restrictions are in order to protect commercial services with whose coverage areas the community services overlap.
- A1.28 Public sources of funding – usually in the form of grants – account for around 53% of the sector's total income. Local authorities are a major source of public funding, accounting for around 16% of the sector's total income, while the Community Radio Fund, administered by Ofcom on behalf of the Department for Media, Culture and Sport (DCMS), accounts for around 7% of the sector's total income.
- A1.29 Note that DCMS published a consultation on 16 June 2009, alongside the *Digital Britain Final Report* on the following amendments to the legislation (the *Digital Britain Final Report* set out the Government's commitment to consult on these proposals):
- Provide a one-off five-year extension of community radio licences
 - Remove the restriction of 50% funding from any one source, and
 - Remove the rule which prohibits Ofcom from licensing a community radio station if it would overlap with a local commercial service with a coverage area of 50,000 adults or fewer
- A1.30 For further information, please see Ofcom's community radio page at http://www.ofcom.org.uk/radio/ifi/rbl/commun_radio/ and in particular, Ofcom's Statement: *Regulation of community radio services* of 23 September 2008.¹²⁷

Duties relating to media ownership rules

- A1.31 As set out above, one of Ofcom's duties in carrying out its functions is to maintain sufficient plurality of providers of different television and radio services (section 3(2)(c) and (d) of the 2003 Act).
- A1.32 Related to that duty is our duty under section 391 of the 2003 Act to review the media ownership rules at least every three years and, as a result of that review, to make recommendations to the Secretary of State if, in Ofcom's view, changes to

¹²⁷ http://www.ofcom.org.uk/consult/condocs/regulation_cr/statement/statement.pdf.

the rules are necessary. It is then for the Secretary of State to decide what actual changes, if any, should be made through secondary legislation, which is approved by both houses of Parliament.

A1.33 The media ownership rules are set out in different legislative provisions¹²⁸ and intend to strike a balance between ensuring a diverse range of viewpoints at both a national and local level, avoiding the risks of undue influence, and sustaining healthy competition within these markets, thereby ensuring that companies are free to have sustainable business models and to deliver high quality news and information.

A1.34 The media ownership rules broadly cover the following areas:

- **Local cross-media ownership rules** – restrict cross-ownership of Channel 3, radio licences and local newspapers
- **National cross-media ownership rules** – restrict cross-ownership of Channel 3 and national newspapers
- **Radio ownership rules** – detailed restrictions on ownership of radio stations and multiplexes at a local level and restrictions on ownership of national digital multiplexes
- **Appointed news provider rules** – specific arrangements for the provision of national and international news to Channel 3 to ensure it is independent of the BBC and suitably well funded
- **Restrictions on broadcast licences**¹²⁹ – restrictions on control of television and radio broadcast licences by certain owners whose influence might cause concern (e.g. political parties or religious bodies). There are also a number of qualified restrictions (e.g. Channel 4 and SC4 may not hold Channel 3 or Channel 5 licences)
- **Public interest test** – as well as the normal competition test (see under ‘Media merger regime’ below), media (including newspaper) mergers may be subject to a public interest test if the Secretary of State chooses to intervene. This test considers issues including plurality in newspapers and plurality in the media

Current review of media ownership rules

A1.35 After conducting a review of the media ownership rules in 2006, and recommending that no changes should be made to them at that stage,¹³⁰ Ofcom is currently conducting a further review and is currently considering responses to its

¹²⁸ Schedule 2 to the 1990 Act (restrictions on the holding of broadcast licences); Schedule 14 to the 2003 Act and the Media Ownership (Local Radio and Appointed News Provider) Order 2003 (restrictions of the holding of certain radio licences, cross-media ownership and additional provisions relating to religious bodies); Sections 280 and 281 of the 2003 Act (Channel 3 news provider); Section 283 of the 2003 Act (Channel 5 news provider); and Part 3 of the Enterprise Act 2002 (insofar as it relates to intervention by the Secretary of State in connection with media mergers).

¹²⁹ A broadcast licence refers to licences granted under the 1990 Act or the 1996 Act for independent television services, independent radio services, digital terrestrial television broadcasting and digital terrestrial sound broadcasting. It is a criminal offence to provide broadcasting services without a licence (sections 13 and 97 of the 1990 Act).

¹³⁰ http://www.ofcom.org.uk/research/media_owners/rulesreview/rules.pdf.

consultation document,¹³¹ with a view to providing a report and recommendations to the Secretary of State by 13 November 2009.

A1.36 Please see the media ownership rules consultation document for a full discussion of these proposals and a detailed overview of the legal framework.

Media merger regime

A1.37 Ofcom also plays a role in the media merger regime. We have an advisory role in relation to mergers in markets where we have particular knowledge or insight, including media markets. In particular, the Digital Britain Final Report¹³² stated that the OFT will in future obtain a Local Media Assessment (“LMA”) report from Ofcom in media mergers involving newspapers and/or commercial radio or television broadcasters which raise *prima facie* competition concerns. Ofcom will offer its views, based on its understanding of media markets, on factors relevant to the OFT’s decision. The LMA report would be likely to include Ofcom’s views on:

- The relevant counterfactual to the merger (including the risk of the asset or business in question failing)
- The scope of relevant product and geographic markets
- The competitive effects of the merger
- Exceptions to the duty to refer, and in particular Ofcom's views on whether the markets are of insufficient importance (*de minimis*) to warrant reference and whether there are 'relevant customer benefits' – such as higher quality (which, in the context of newspapers, could for example reflect the range and quality of news reporting) or greater choice of products – which might be weighed against an identified substantial lessening of competition

Ofcom will provide the LMA to the OFT within the context and timeframe of the OFT’s normal review processes. The decision on whether to refer or clear the merger remains with the OFT under section 22 of the Enterprise Act 2002.

A1.38 Separately, if the Secretary of State intervenes in a media merger (involving newspapers or broadcasters), Ofcom will conduct a ‘public interest test’ and report to the Secretary of State (see above).

Equality impact assessment

A1.39 Ofcom is required by statute to assess the impact of all of our projects and practices on race, disability and gender equality. We have fulfilled these obligations by carrying out an equality impact assessment (“EIA”), which examines the potential impacts a proposed policy or project is likely to have on people, depending on their background or identity.

A1.40 While we are not consulting upon, or making any decisions through this project, we conducted an EIA in order to identify potential impacts on diversity groups that might need to be considered in the event of potential future work in this area. While a new EIA may have to be conducted for such work in future, we highlight some

¹³¹ See <http://www.ofcom.org.uk/consult/condocs/morr/morrcondoc.pdf>.

¹³² Referring to the OFT’s report of 16 June 2009 on its review of the local and regional media merger regime (http://www.of.gov.uk/shared_of/mergers_ea02/oft1091.pdf).

high level considerations we consider appropriate to the areas covered by the project which fall within Ofcom's remit.

Black and minority ethnic (BME)

- A1.41 Demographic data show that members of black and minority ethnic (BME) groups are unevenly dispersed throughout the UK. Therefore, policies which affect certain localities in different ways may have a differential impact on particular BME groups.
- A1.42 Our consumer research has previously indicated that community media in particular is used by a greater proportion of the BME community than of the population overall, and there are examples of community radio stations serving the needs of BME communities. Internet take-up among BME groups is also higher than in the population as a whole, and therefore, initiatives in this area may have a disproportionate impact on this diversity group.

Gender

- A1.43 Our consumer research has shown that there are small differences in the way that gender groups use local media, with a slight female bias towards use of television as a primary source of news about the local area, and a male bias towards online as a source of local news.

Disability

- A1.44 There is no change to the requirements upon licensed television services to provide access services where required under the Broadcasting Code. In the event of a future decision to intervene to secure local television, a future EIA might for example, examine access services for such services.
- A1.45 We note that community media, including community radio, may have important role to play in promoting equality for disability groups. For example, one community station in Glasgow, *Insight Radio*, focuses on serving blind and partially-sighted audiences.

Actions and monitoring

- A1.46 In relation to public funding for local content, we highlight the potential for conditions for public funding of community and other forms of local media to require the recipients to take account of the needs of the entire community, including members of BMEs and those with disabilities.
- A1.47 Ofcom's ongoing programme of consumer research enables Ofcom to continue to monitor the use and availability of local media by diversity groups and to build a sound evidence base for our ongoing work in this area.