

Radio – Preparing for the future

Phase 1 Consultation: Developing a new framework

15 December 2004

Ofcom approach to radio brings together:

- Strategic planning in radio spectrum to support growth of digital
- Less intrusive regulation focused on outputs not inputs
- New licensing process for commercial radio

Radio matters to listeners

- 90% of the UK population tunes into radio for at least five minutes every week
- On average, we each listen to 22.9 hours of radio a week – almost as much time as we spend watching television
- Latest listening figures are over 8% higher than five years ago
- The number of UK analogue stations has grown from 218 ten years ago to 326 today
- UK radio industry funding is £1.1bn a year, up from £0.6bn ten years ago, radio's share of display advertising has risen from 2.8% to 4.5% in the same time
- Listeners expect a wide variety of programmes - music, news, local traffic and travel, weather, discussion of community issues, sport, comedy, documentaries and drama

Radio matters to Ofcom

We have statutory duties requiring us to:

- Secure a wide range of radio services of high quality appealing to a variety of tastes and interest
- Optimise the use of spectrum
- Maintain plurality of radio providers
- Ensure standards via programme codes
- Protect local programming and local production

So far this year:

- We have streamlined licensing procedures
- FM licensing programme underway
- Issued interim localness guidelines
- Started community radio licensing process

Radio is spear-heading the drive to convergence:

- Radio is available, and increasingly listened to, via digital television, the internet, mobile telephones and DAB
- New data & interactive services are becoming available

Two statutory duties have been the catalyst for “Preparing for the future”...

Localness

- S314 of the Communications Act requires us to produce guidance on requirements for local material and local production in commercial radio

Digital

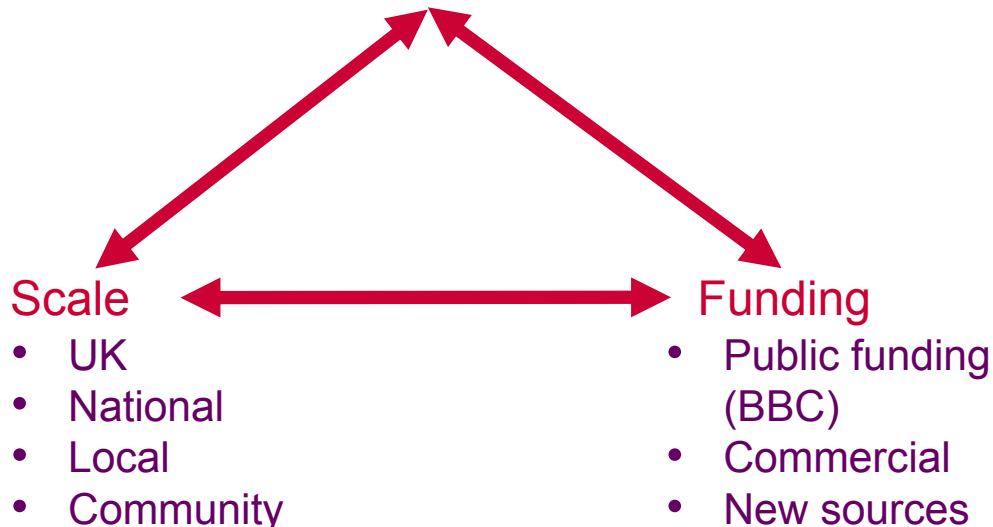
- To comply with the duty under S67 of the Broadcasting Act 1996 we were asked by the Secretary of State to produce a report on the development of digital radio

...but many people said to us that we should not look at these two issues in isolation

Complexity

Delivery platforms

- AM
- FM
- DAB
- DTV
- Internet



Change

- Communications Act allows consolidation
- Digital radio
- New FM licences
- Community radio
- Convergence

Phase 1 addresses initial priorities, based on a strategic framework; Phase 2 considers longer term issues

Phase 1

- Addresses the statutory priorities of digital radio and localness
- Poses strategic questions regarding
 - rationale for intervention
 - public purposes
- Proposes a strategic framework for future regulation of radio
- Completed December 2004

Phase 2

- Further consideration of the Public purposes for radio and how these are best delivered
- Final policy decisions in the light of the consultation responses
- Completed Spring / Summer 2005

Our proposals have been made in the light of our proposed strategic framework

If there are public purposes, we believe Ofcom's role for non-BBC radio is:

- To enhance **choice, diversity** and **innovation** for consumers at the UK, national, regional, local and community levels
- To secure citizens' interests through the provision of radio designed to meet **public purposes**
- To do this with as **little intervention** in the market as possible, in a way that is as **consistent** as possible across media and across platforms

In addition to the proposed strategic framework, we have proposals for consultation in a number of areas, including:

- The regulation of analogue commercial local radio – including rules around “inputs”
- Enhancing choice and competition in digital radio by allocating further spectrum and taking other steps
- The development of a set of “public purposes” for radio

We welcome views and comments from all stakeholders on all of our proposals

Preparing for the future

Regulation of localness in analogue commercial radio

Our premise is that regulation of outputs is preferable to input regulation

Current regulation

Formats



Proposal

Formats

*We propose continuing to use a station's format as the **primary regulatory tool***

Inputs (news hubs, automation, networking, studio location)



Localness guidelines

*A set of clear guidelines covering local content
Proposals to reduce input regulation*

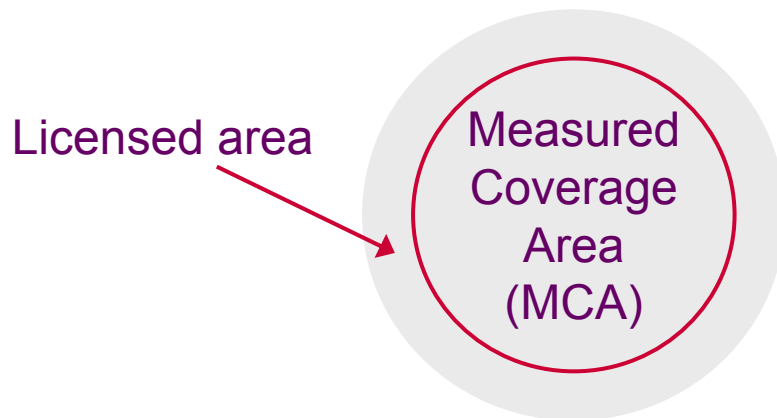
Programme codes



Programme codes

Stations will continue to have to comply with Ofcom's programme codes

We propose a modest relaxation of studio location rules



- Ofcom's objective is to ensure that the requirement for local production is fulfilled
- Currently studios must be located within the technically defined MCA
- We propose relaxing this to allow **studios to be based within its licensed area**
- Exceptional circumstances – consider the case for location of studios outside the licensed area

We want to consider removing restrictions on automation

- Ofcom's objective is to ensure that the content of the service that listeners hear is of high quality
- Currently the number of daytime automated hours permitted is limited
- Automated programming can be high quality
- We want to consider **removing all specific limits on the use of automation** to reduce input regulation
- If this proved to be detrimental to the quality of radio, we may consider reintroducing automation limits

We want to clarify the rules on networking of content

- Ofcom's objective is to ensure the provision of local material and locally-made programming
- The number of hours of locally-made programming for each station is defined in its format
- Formats may also specify that programming at certain times of day must be locally-made
- Beyond this, there are currently no written rules on the networking of content.
- For the purposes of clarification, we propose that **stations be free to network as they wish beyond format requirements**

Listeners tell us local news is the most important element of local radio; but does it matter how it is made?

How important is it to you that **news reporters are based in the local area**?



How strongly do you agree or disagree that **"If local news is covered, I don't care where the news reader is"**?



We want to consider removing restrictions on the use of news-hubs

- Ofcom's objective is to ensure the provision of a high quality local news service
- We want to consider allowing news hubs to be used at the discretion of the radio group
- But to ensure local news quality we are also proposing **maintaining a local journalistic presence**
- However, this requirement is not consistent with moving from input to output regulation, so **is there another way to ensure stations provide high quality news?**

We have finalised our localness guidance in the light of respondents' views on interim guidance...

What localness is

- Programming of specific relevance, distinct from UK or nations' services
- A range of local aspects to stations and output specific to the area
- Feel for an area, and on-air access to matters of importance, relevance or interest to the target audience
- Programming creating a feeling of ownership/kinship



What localness isn't

- Localising news without generating local news/information
- Off-air promotion without on-air activity involving something other than self-promotion
- Competitions/promotions with listener participation outside a station's area
- Advertising



How localness should be delivered

...and propose the following guidelines to reflect changes being considered in input regulation

- Provision of the equivalent of **full time professional journalist cover** for all of the hours of local news
- **Local programming** should be **locally-made** and show **elements of local content, whether automated or not**
- Local events should be responded to in timely manner, providing live local programming that audiences expect regardless of networking
- **Studios** should be **located within its licensed area** if local programming is required

But if we move to more output-based regulation we need to find a way to ensure compliance

We propose to ensure compliance in three ways:



Investigation
of complaints



Spot checks



Format and
localness file

The “Format and localness file”

We propose to require stations to maintain a simple file – available on their website and at their studios – which could contain:

- Details of how and when local programming is being broadcast and how the station is complying with its format
- How much of the station’s output has been automated (e.g. voice tracked) and where such programming was produced
- How the station has met its local news obligations

Future of radio

Facilitating the growth of digital radio

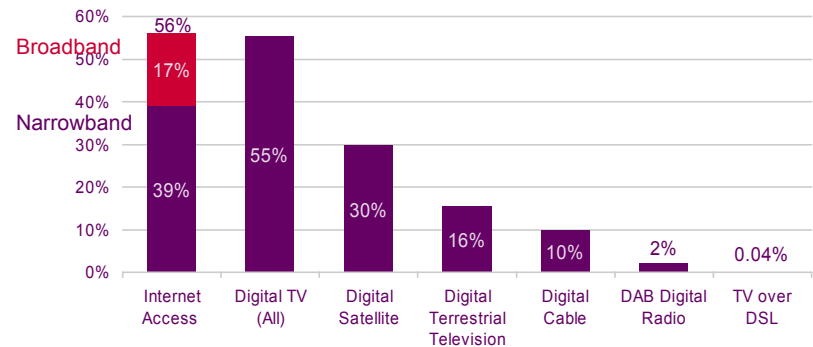
The UK is becoming increasingly digital

- Broadband is now in 17% of households and 99.6% of households should be connected to a broadband enabled exchange by the end of 2005
- Digital TV is in 55% of households with the analogue TV signal scheduled to be switched off in 2012
- 4 of the 5 holders of mobile 3G licences are planning to launch consumer services by the end of the year with up to 80% population coverage
- BT is moving from the Public Switched Telephony Network to an Internet Protocol based network
- . . . and radio has an important place in the digital world

The UK leads the world in digital radio take-up, which has benefited from multiplatform access

- Digital radio is accessible via:
 - Digital TV
 - Internet
 - DAB
- Almost all UK households can access digital radio through at least one platform
- DAB is important as a digital alternative to AM & FM as it offers portability and mobility as well as local stations

UK Penetration of digital platforms (households)



Source: Ofcom/GfK



Reciva's wireless internet radio

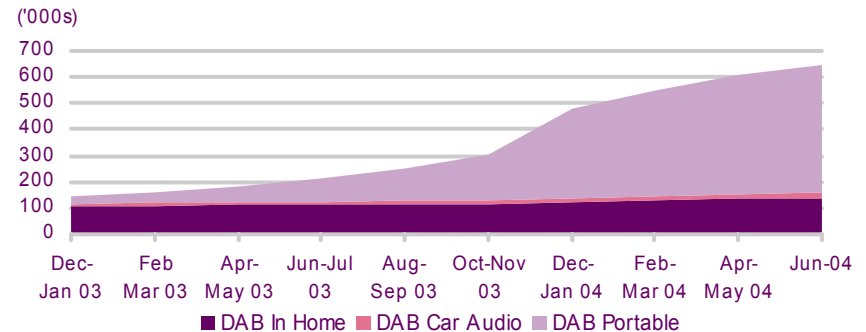


PVRs can record radio too

Access to digital radio has grown rapidly

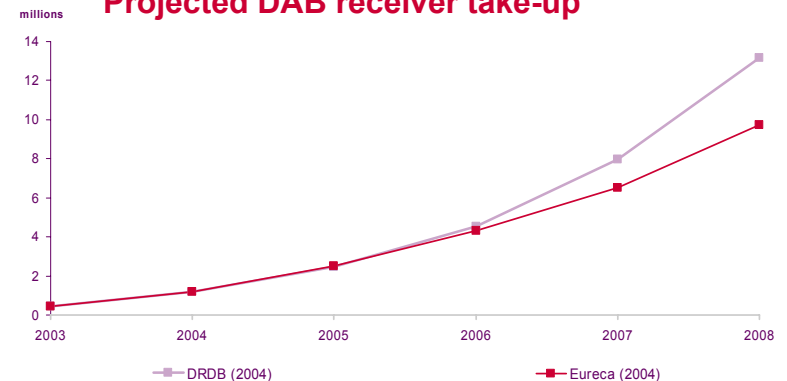
- Over 55% of homes have access to digital stations via their TV
- Only 2% of homes have DAB, but take-up has accelerated rapidly over the past two years
- An expanding range of DAB models and retail outlets, combined with falling prices, is helping take-up

Sales of digital radio (DAB) receivers



Source: DRDB/Gfk

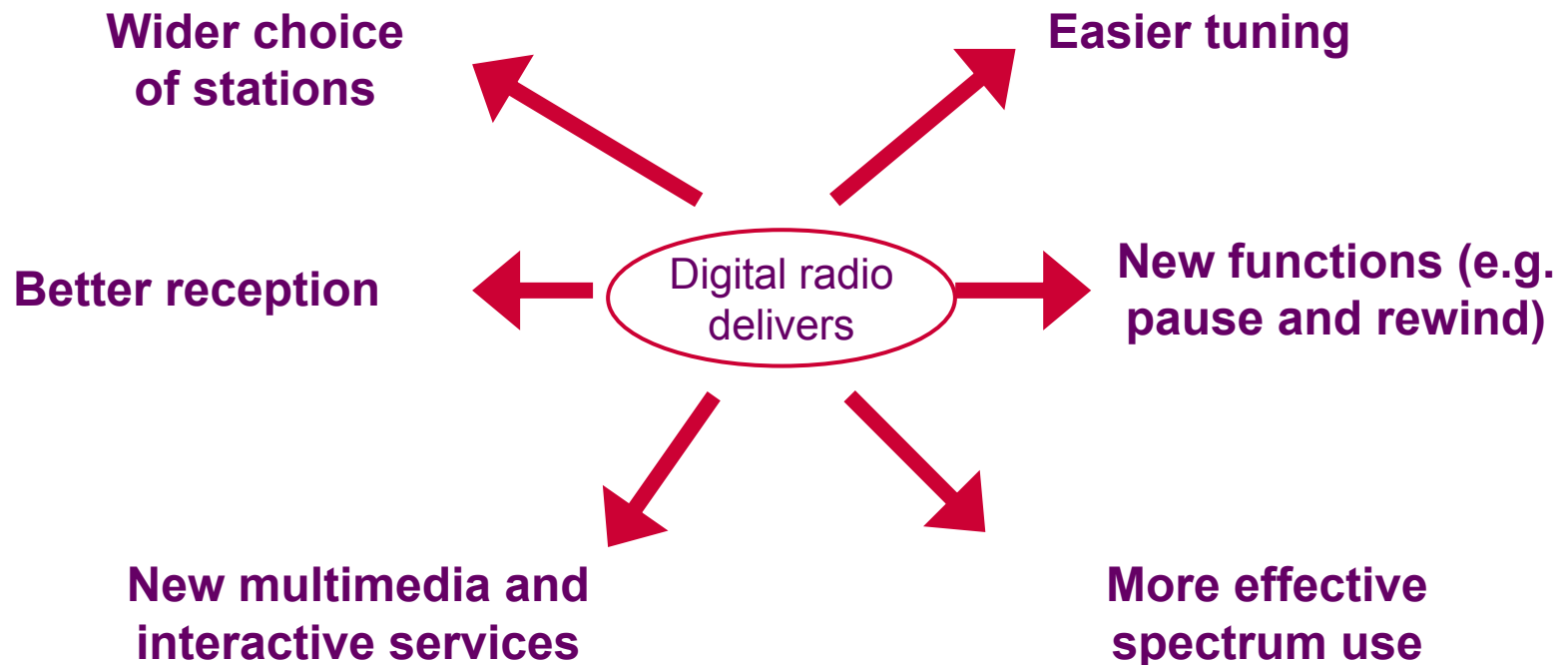
Projected DAB receiver take-up



Source: Third party forecasts

Digital radio can deliver important benefits, and Ofcom's proposals are aimed at releasing them

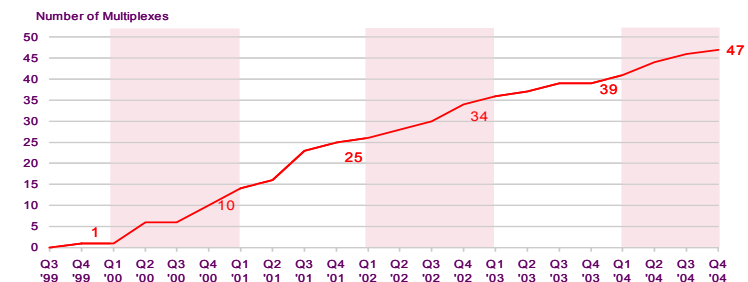
Digital radio provides a number of benefits to consumers and to the UK as a whole



Favourable conditions have helped digital radio to take-off in the UK

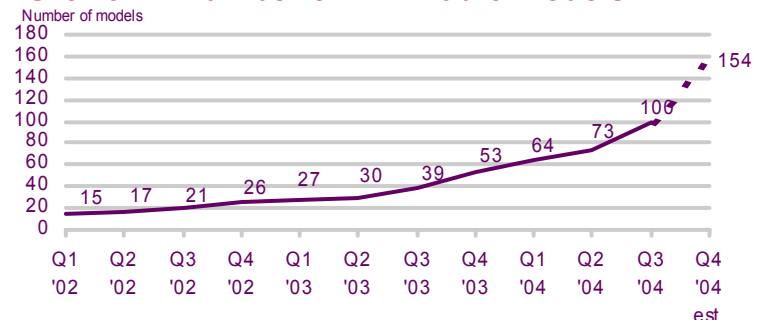
- Spectrum allocation for DAB
- Investment in transmission and content by the industry
- A licensing regime which encouraged digital investment
- A wide choice for listeners
- High digital TV penetration – offering radio
- Commitment of the industry to marketing – via DRDB
- Innovation and risk-taking by small manufacturers

Number of commercial DAB multiplexes on air



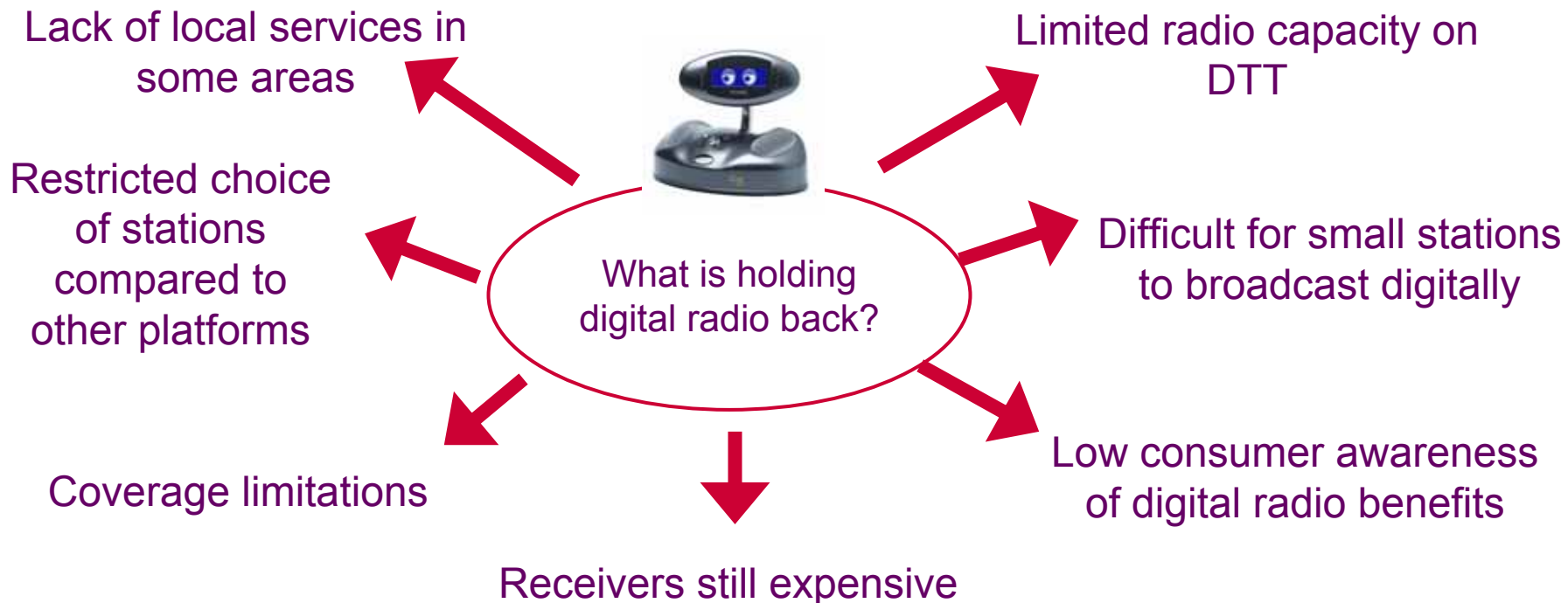
Source: Ofcom

Growth in number of DAB radio models



Source: DRDB

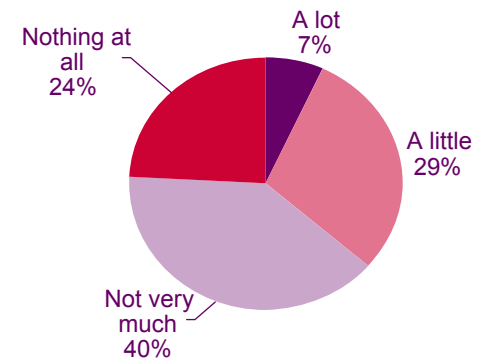
However, there are obstacles to digital radio take-up



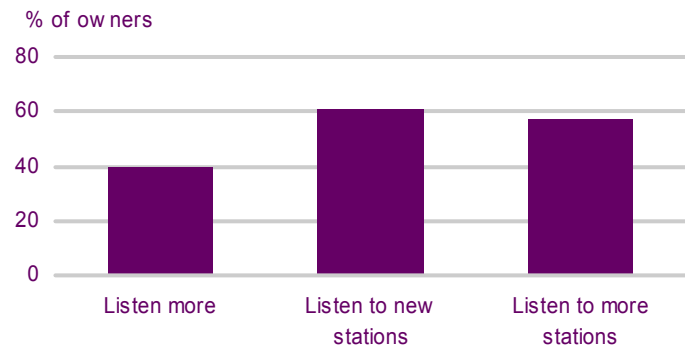
Consumer awareness is still low but this is an industry opportunity

- Awareness of digital radio and its benefits is low
- But once they appreciate the benefits, listening behaviour changes markedly
 - Listening longer
 - Trying new stations
 - Broadening regular station selection

Consumers' knowledge of digital radio



Benefits of digital ownership

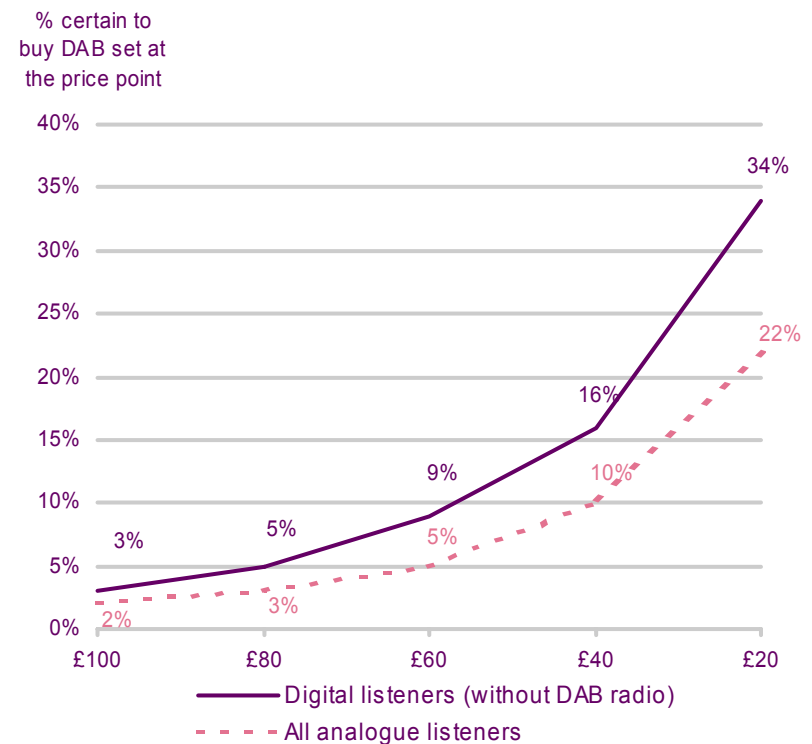


Source: MORI research for Ofcom

Consumers care about price but our role here is limited

- Consumers are sensitive to DAB pricing
- DAB radios now available at £50, with the 'digital premium' declining
- UK sales levels are encouraging model development, leading to better features and lower prices
- Investment will increase if other major markets follow the UK
- Industry and Ofcom have a role in helping international colleagues understand how to effectively develop digital radio markets

Purchase interest in relation to price



Source: MORI research for Ofcom

The formation of Ofcom brings together spectrum management and regulation of licensees, allowing a co-ordinated approach

- The Band III consultation we inherited, with a majority of the responses in favour of further digital radio multiplex licensing
- Subject to:
 - Finding a home for existing PMSE users of the spectrum
 - Securing agreement with our neighbours in Europe over the use of the spectrum
 - The results of this consultation
- ...there are 4 or 5 blocks which may be allocated as DAB compatible

Proposals on spectrum allocation to address local coverage

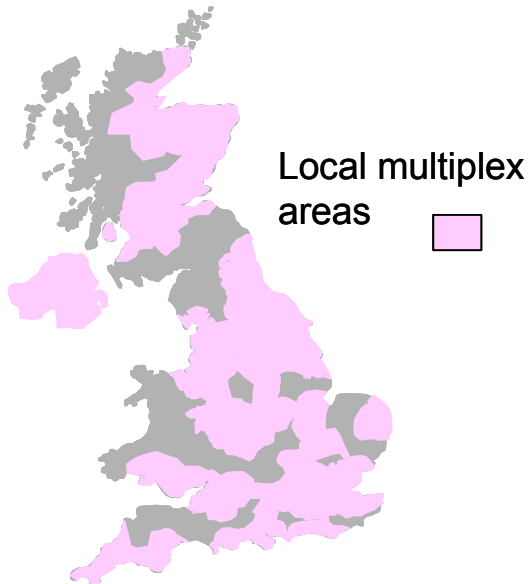
Obstacle

- Not all areas of the country have a local DAB multiplex



Proposal for consultation

- We propose to allocate 3 blocks of spectrum, to fill-in the local gaps
- These would be licensed as radio multiplexes (Broadcasting Act)



Proposals on spectrum allocation to expand choice

Obstacle

- The choice of stations on DAB in any given area is limited compared to other digital platforms



Proposal for consultation

- Allocate up to two national spectrum blocks with DAB compatibility – possibly without Broadcasting Act licences

- We note Digital One's position as the current national radio multiplex licensee, and the investment it and other existing radio licensees have made in digital radio
- To the extent relevant, we will take this into account, together with all other relevant factors, in reaching a decision on our proposals regarding the allocation of spectrum

Further proposals to expand choice

Obstacle

- The choice of stations on DAB in any given area is limited compared to other digital platforms



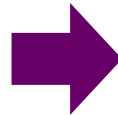
Proposals for consultation

- Replace minimum bit-rate requirements with co-regulation to allow more stations to be broadcast on each multiplex
- Consider recommending Government relax the 20% data limit on commercial multiplexes

Addressing other obstacles

Obstacle

- DAB is uneconomic for smaller stations
- Coverage of national and local services within DAB licensed areas is incomplete
- Spectrum for digital radio is limited on DTT



Proposal

- Work with the industry to find ways for smaller commercial and community stations to go digital
- Continue to secure international agreement to improve coverage
- But, implementation of power increases and transmitter roll-out is for the industry
- Consider recommending Government relax the 10% limit for non-programme related data (including radio) on DTT

At this stage we see no case for switching off the analogue services

- With only a few percent of households currently owning digital receivers, and incomplete coverage, talk of switchover is premature
- Compared to the costs for consumers and broadcasters, the benefits of switching off analogue would be limited
- Currently no clear route to digital for smaller commercial analogue and community stations
- Currently no alternative uses for released analogue spectrum are foreseen
- But we recommend that the situation be kept under review

Preparing for the future

Further licensing

We have proposals for licensing new radio services

- One of our proposed strategic aims is to enhance consumer choice, diversity and innovation
- One way we plan to achieve this is by licensing new radio stations:
 - As mentioned, we propose to consult on allocating:
 - 3 further frequency blocks for local DAB services, and
 - 1 or 2 blocks which could be used for national DAB services or for other types of service
 - We have already set out our proposals for further licensing of 30 local FM stations and for the licensing of community radio stations (for which we have received 192 applications)
 - In addition, we have identified 10 MW frequencies which have development potential, and seek views as to how and when these should best be allocated

Preparing for the future

Longer term questions

Why do we intervene in radio?

- In television we ask all the time “why do we intervene in the market?” – one of the main reasons is to protect public service broadcasting.
- Looking forward we will need to address the big issues about where radio is heading
 - The impact of digital radio
 - The impact of competitive changes in the industry – consolidation and community radio
 - The role of the BBC
- In order to answer the question “*why do we intervene in radio?*” we want to identify if there may be a set of “**public purposes**” for radio, as a whole – and decide how they are best delivered

Next steps

- Consultation on Phase 1 closes on 7 March 2005
- Final report published Spring / Summer 2005 to look at:
 - Public purposes for radio
 - Strategic framework for future regulation of non-BBC radio
 - Final policy decisions in the light of the consultation responses