

Renewal of Analogue Commercial Radio Licences

Consultation Response

24 March 2015

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# Introduction

**This report sets out the Government’s response to its consultation on the renewal of analogue commercial radio licences and whether the Government should amend current legislation to allow further renewals of existing analogue commercial radio licences without re-advertising the affected licences.**

The Digital Economy Act 2010 (“the 2010 Act”), which came into force in April 2010, gave Ofcom new powers to grant licence renewals to FM and AM stations, to support the migration to digital radio. Radio stations that were licensed on or after 8 April 2010, or which had already been renewed for 12 years under section 104A or section 103A of the Broadcasting Act 1990, were able to apply to Ofcom to renew their licence for one further period of seven years. In order to qualify for the renewal, licensees were required to simulcast the service on an appropriate DAB multiplex. The purpose of the change was to provide a further incentive to commercial radio to support the development of DAB.

At the time the legislation was enacted, the Government and the commercial radio industry anticipated that a timetable for switchover could be set as early as 2015 and that, with good progress, a switchover could be completed in 2017 or 2018. The proposed seven-year duration for licence renewals in the 2010 Act therefore reflected this expectation, as in such a scenario it made sense for analogue licenses to begin to lapse around this time. However, the rate of digital growth has been slower than was forecast in the Digital Britain report published by the previous government in 2009 and which informed the changes introduced by the 2010 Act. In December 2013, following the completion of work on the Digital Radio Action Plan[[1]](#footnote-2), the Government concluded that it was not the right time to commit to a radio switchover or set a firm or indicative timetable for a future switchover.

As a result of the Government’s decision in December 2013, the licences of over 60 radio stations renewed under the 2010 Act’s provisions will expire between 2017 and 2021, before the date when a switchover is possible. Under current legislation, these stations would need to bid to Ofcom for their licences through a competitive process. All three national licences are affected, as are over 60 local licences.

Our consultation paper therefore sought views on the following three options:

1. Do nothing: Not to legislate, but instead to allow licences to expire and be re-advertised in the usual way by Ofcom
2. Allow the renewal of licences for a further five year period for licences renewed under s103B and s104AA of the 1990 Broadcasting Act, and twelve years for stations that have not yet been renewed under s103B or s104AA
3. Allow the renewal of licences for a longer period of time not specified above

Consultation seminars

In addition to the request for written responses, we held three consultation seminars in order to explore the views of industry in greater detail. These were held in London, Edinburgh and Birmingham. All affected licensees were invited, as were the licence holders for all remaining commercial analogue stations, in addition to a number of trade bodies, consultants and other interested parties. Details of the seminars, including notes, are appended to this response from page 15.

Research into competitive impact of the consultation options

Due to the potential impact on market competition – including potential new entrants - we also commissioned Value Partners to produce research on the competition and market impact of each of the options we consulted on. The results of this work are published separately alongside this response.

# Summary of responses received and Government’s Response

We received thirteen unique written responses to our consultation, seven from radio stations/groups and the remainder from a mixture of industry bodies and consultants who work within the industry.

Of these thirteen, six provided a full response to the questions we asked, five gave a partial response, and two did not directly address the issue. However, in addition to the written responses we received significant oral feedback from around 30 delegates across the three seminars that we held in Birmingham, Edinburgh and London, and this is reflected in our summary of responses.

Of the written responses, two supported option 1 (do nothing and allow the affected licences to be re-advertised). Reasons for this included that this option could provide an opportunity for new entrants to compete in the analogue commercial radio market, potentially resulting in an increase in the range and diversity of analogue commercial radio services.

Two written responses supported option 2 (five year renewal, or twelve if the affected licence has not yet received its second renewal). Support for this option was primarily because of a view that it would strike a balance between maintaining the sector’s competitiveness, and providing certainty and stability in a challenging economic landscape and at a time when the industry is working towards a digital transition. It was also felt this option would generate significant cost savings for licensees, as they would not be required to re-compete for their licences.

Eight written responses support option 3 (indefinite renewal, or until a switchover). This included the response from RadioCentre, the representative body for many commercial radio stations. Those respondents felt this option would provide the strongest possible signal of support for further investment in digital radio, provide greater stability for the sector, and would provide absolute certainty for industry in the drive towards a digital future for radio. The cost saving to industry was also cited to justify support for this option, as licensees (as in option 2) would not have to re-compete for their licenses, which respondents felt would be a costly procedure, which could divert from investment in content and digital radio.

One response was equally supportive of option 2 and 3.

Feedback from the seminars also suggested there is widespread support for renewal of the affected licences: over three quarters of attendees supported either option 2 or 3. However, a small number of delegates were either openly supportive of option 1, or expressed that whilst they were supportive of renewal, equally they were not adverse to the re-advertisement of licences as they felt their station would not have any difficulty of securing a new term through a competitive process.

In addition to the formal consultation, we commissioned Value Partners to produce research the impact of each of the options in terms of the effect on completion and wider market impacts. Value Partners interviewed a number of industry representatives. In their report to DCMS, Value Partners concluded that, in their view, option 1 was more likely to promote the interests of industry and consumers, due to the potential to stimulate greater competition between existing incumbents and new entrants to the market. Although these views have informed our thinking around what is the most appropriate way forward, we do not find the arguments persuasive and believe that the research under plays the impact of maintaining stability in the commercial radio sector to support investment in content and in the transition to digital.

Conclusion

Having fully considered all of the consultation responses, both written and oral, and having reflected on the findings of Value Partners’ research, we consider that there are merits to option 1, including the potential to stimulate new entry and to refresh the local radio market. However, we believe that the merits of option 1 remain largely hypothetical, and having considered in detail the range of views expressed during the consultation responses, we remain of the view that option 1 could impose significant costs on industry at a time when we are trying to maintain certainty of direction and encourage the sector to maintain investment in DAB. We think these costs are likely to outweigh any potential benefits of allowing licences to be re-advertised, and this option would also risk sending mixed signals to the radio industry about the future transition to digital radio.

Whilst there are merits to option 3 - including that it would provide licensees with absolute certainty up until the point of a future switchover, a date for which has yet to be set and depends upon progress in getting listeners to switch to digital - we believe this is a fundamental a change to the regulatory framework for commercial radio which requires a much more detailed examination. In addition, the consultation has demonstrated that FM licences remain valuable assets that are largely profitable for licence holders: whilst the value of FM licences will decline as digital listening grows, we do not think it appropriate to allow renewals on a perpetual basis given that decisions on the future transition to digital and the timing of a switchover have yet to be made. Allowing an extension for a further five years (option 2) will allow future flexibility for Ofcom in the event that a future switchover is a more gradual event and managed without invoking the powers in the 2010 Act, whereby Ofcom may terminate analogue licences with two years’ notice in the event of a switchover. Option 2 also avoids the risk of entrenching different tiers in the radio licensing system, providing those licensees who have benefitted from a renewal a greater level of economic certainty than those licensees who cannot, or do not wish to, provide an equivalent service on DAB.

Our conclusion therefore is that, given the support for licence renewal from most of commercial radio, and the continued policy objective of working towards a digital future for radio and supporting industry through this transition, we are minded to proceed with option 2, and make provision for all affected licences to be renewed for a further five years. We think this option strikes the most effective balance between addressing the issues raised across the whole spectrum of responses:

Firstly, it reflects that most of the respondents to this consultation are in favour of a further renewal, and it will also bring the affected licences in line with the existing standard licence length of 12 years.

Importantly, this option reflects current Government policy on switchover. Whilst we note concerns around the exact timing of a switchover, we believe a shorter renewal period will help to maintain momentum and drive the transition to a primarily digital environment. We therefore believe this option also provides further certainty of direction to the radio industry, reaffirming as it does Government’s commitment to a transition to digital radio, and thereby supporting continued investment in DAB.

We also believe that, though a small proportion of respondents favour re-advertisement of licences, the certainty of direction option 2 provides will benefit the whole industry. With a further renewal, advertisers and investors are more likely to continue to have confidence in the platform and the industry’s future, which will be to the whole industry’s benefit.

Next steps

Subject to the necessary approvals, we will now proceed to make an amendment via a Legislative Reform Order to the relevant legislation – namely sections 103B (which covers national licences) and 104AA (which covers local licences) of the Broadcasting Act 1990 – in order to allow these licences to be renewed for a further five year period.

# Main findings from the consultation

In the following section we have listed the questions we posed and summarised respondents’ replies.

**Option 1:** **Do nothing - Not to legislate, but instead to allow licences to expire and be re-advertised in the usual way by Ofcom**

We asked:

**What is the likely impact on the radio sector if legislation is not changed? In particular, what is the likely cost impact of rebidding for licences, the impact on investment in content, and the impact on competition between radio stations and groups?**

**Do you agree that the disadvantages to the radio industry and to individual stations of not allowing a further renewal period outweigh any potential benefits in requiring stations to rebid for licences? If not, could you set out the benefits of this to radio listeners and the wider radio industry?**

The majority of responses from both the seminars and the written responses that we received were not in favour Option 1.

The general view expressed by respondents was that allowing analogue radio licences to be re-advertised would not be appropriate for a number of reasons. Firstly, it was considered that it could create uncertainty in an industry still recovering from the challenging economic environment of the last few years; indeed many respondents contended that advertising revenue had sharply decreased and putting radio licences out into open competition could decrease advertisers’ confidence in radio. One contributor at the London event stated that as advertising was drawn to strong brands in radio, as elsewhere, the possibility that strong radio brands might be damaged by losing their licences could reduce confidence in radio as an effective platform for advertisers a whole at a time when the industry its making strenuous efforts to fully capture its value to advertisers and sponsors.

Secondly, respondents believed that allowing analogue licences to be re-advertised would be an acknowledgement that Government policy towards a digital switchover had changed. Contributors remarked that the raison d'être behind the initial rollover of analogue licences was to provide stability and limit disruption to the industry during the run up to a digital switchover involving the withdrawal of analogue services. By choosing not to extend licences, the Government would in effect be saying that it was longer committed to a digital future, and this could seriously undermine the future of DAB. Consequences could potentially include a drying up of investment in DAB technology and new digital only services from radio stations and radio groups who would have to switch investment into reapplying for their licences instead.

Estimates from contributors put the financial burden of such a reapplication for local licences at somewhere between £2000 and £150,000 depending on the size of the individual station’s target survey area (TSA) - i.e. costs would be considerably higher the larger the size of the population served as there would be more competition for a bigger audience.

Whilst most respondents conceded that many of the affected licences would be contested if re-advertised, the majority of those who contributed felt that the cost of re-applying for a licence would seem even more unpalatable in light of past experience that very few of the competed licences would actually change hands. It was quoted by one respondent that in the whole history of the current legislative framework for radio only 5 out of 294 licences have ever not been re-awarded to the incumbents.

Some contributors pointed out the administrative burden, both financially and in terms of human resources, that a large volume of re-advertised radio licences would place upon the regulator, Ofcom, and how such a burden would seem doubly unacceptable if the case for re-advertising the licenses was not strong in the first instance.

Other contributors said they were could not see the rationale of allowing new entrants onto analogue radio if that platform was to form a much smaller part of the wider radio ecology in the medium term.

A further recurrent view from respondents was that even if new entrants were given the opportunity to bid for analogue licences, and were successful, they would face significant challenges in building a listenership from scratch, and potentially even more difficulties in migrating this nascent audience over to digital at the time of a switchover.

Attention was drawn to statistics from Ofcom that demonstrate on average it takes at least 5 years for a new radio station to break even financially, thereby calling into question whether such a new entrant would have sufficient time before a digital switchover to build their business into a sustainable enterprise.

However, a small number of respondents **(two written responses)** strongly advocated that re-advertising licences could in fact be good for the whole industry. This view was supported by some of the contributions to the Value Partners research.

A number of the respondents felt that the 2010 Digital Economy Act (2010 DEA), which allowed much more content at local stations to be produced centrally by the large radio groups, has helped to create a series of quasi-national networks and that this had gone too far. This was seen detrimental to the listening public as whole, undermining the key aspects of localism and resulting in many local stations are no longer producing as much local content or employing as many people locally. Therefore by opening the licences to competition, it was argued that the Government would be giving opportunity to new entrants who are committed to providing a genuinely local service to enter the market place.

It was argued by respondents who favoured Option 1 that re-advertising the licences could only be good for the listener; it would either provide them with new stations who would be trying their utmost to ensure their offering included a strong and entertaining local provision, or even if the current incumbents retained the licences, these licensees would as a result of the competition have to invest in or improve content, thus ensuring the listener would directly benefit from Option 1.

A final but interesting issue raised during the London consultation event was that putting commercial analogue licences out to open competition instead of simply rolling them over could allow for a greater representation of minority groups on analogue radio. It was pointed out that since the time that most of these licences were awarded, the demographics of the UK have changed, and that there is now greater demand for stations that serve different religious or cultural communities in various parts of the country.

By not allowing further renewal of analogue licences therefore, the Government could play an important role in ensuring the radio industry more fully represents the audience that it serves.

**Option 2: Allow the renewal of licences for a further five year period for licences renewed under s103B and s104AA of the 1990 Broadcasting Act, and twelve years for stations that have not yet been renewed under s103B or s104AA**

We asked:

**Do you agree that a five-year period of renewal would provide sufficient certainty to licensees about a continued transition to digital, and encourage continued investment?**

**We would also welcome views on whether all analogue licences should be treated in the same way, or whether the renewal of national licences should be treated differently to local licences.**

This option was supported by three of the written responses (though a number of those who preferred Option 3 were also supportive of Option 2) The main argument in favour was that this option was better for the radio industry as a whole than simply letting licences expire, as it did not prevent new entry (given the routes via DAB or by acquisition) but still provided a degree of stability for the sector. It was expressed in both written responses and seminar contributions that an extension of five years would be preferable to no extension whatsoever, as it would provide additional breathing space for industry before a concrete decision is made on a digital switchover date. It was also noted that with this option the sector would benefit from a significant cost saving by not having to re-bid for their licence as part of a wider competitive process. In that way it was seen as a continuation of the Government’s policy rather than a change.

A number of respondents raised concerns about the practicalities of option 2. Firstly, some considered that it was not impossible that the Government would not announce a digital switchover date within the next five years, and as such a five-year renewal would not be sufficient to take stations fully through the transition period. As a result, some respondents concluded that this option would not grant the industry the stability it believes it requires in the run up to a digital radio switchover, though it was clearly preferable to the current position.

Those opposing option 2 (and indeed to any further licence renewal) argued that it would restrict future competition and prevent new entrants to the market. Conversely, the majority who favour a licence extension argued that those seeking to enter the industry have plenty of opportunities to do so via a digital platform, be it on DAB (particularly with plans to extend local DAB coverage and licence a second nation multiplex) or online radio. A contributor to the Edinburgh seminar explained that it was currently very difficult to sustain a viable financial model with a digital only station due to the lack of scale in terms of digital only audiences, and that such a business would have a strong interest in competing for any analogue licences that became available in their geographical area.

On the question of whether national and local commercial analogue licences should be treated the same or differently, of those who responded specifically to this question, the response was decisively that the licensing process ought to be the same for both. One respondent in particular went into the issue in some depth, explaining that the current beauty parade system for advertising national licences could potentially lead to over-bidding from contenders who would then be left with an asset that has a relatively short shelf-life, given the move towards digital, and wanting to either trade the licence (to incumbents) or seek a change to the character of service from Ofcom at the earliest opportunity.

It was pointed out by some respondents that the system of re-advertisement could also lead to the loss of popular stations such as Classic FM, as the highest cash bidder could potentially win with an offer of a non-pop format of any kind. It was contended that this would be a significant loss to Classic FM’s fan base and could therefore be considered detrimental to consumers. Furthermore this loss could potentially be replicated across stations all over the country. However, it would also be an incentive for Classic FM’s listeners to switch to DAB, which is carried to broadly the same audience as the analogue service.

**Option 3: Allow the renewal of licences for a longer period of time not specified above or an indefinite period until the point of a radio switchover**

We asked:

**We would welcome views on the advantages and disadvantages to the radio industry and to individual stations of allowing lengthier licence renewals beyond five years.**

**We would also welcome further views and evidence on the impact of a longer, or indefinite, licence renewal on competition; both on and between different radio stations and groups and potential new entrants to the market.**

Eight written responses to the consultation favoured this option, primarily as it was perceived to provide the most stability for the radio industry, both in light of the transition to digital radio, and in light of the economic environment.

One of the recurring arguments was that a longer/indefinite extension was a logical step in terms of the Government’s past approach to digital radio, i.e. that the renewal is tied to provision of a DAB service in order to support the growth of digital radio, and therefore could be justified because it would be consistent with Government policy on switchover.

Some respondents felt that if the Government is still committed to a digital switchover in the not too distant future, then an extension of analogue licences that would lead industry right up until this point would be appropriate. There would seem to be little point, some respondents contended, in re-advertising analogue licences operated by stations committed to DAB at all if government is still committed to the idea of a switchover.

It was suggested that a licence extension beyond the five years proposed in option 2 would serve to encourage further investment in DAB by the radio industry, who some respondents argued would be incentivised by the signal that digital switchover is the direction that the industry is heading towards in the medium to long term.

Other respondents argued that the longer licences are extended, the greater confidence advertisers would have in the medium as a whole. Their concerns about the erosion of strong radio brands would be alleviated and the financial future of the commercial radio industry in general would be far more secure.

However option 3 was not uniformly supported. Opposition to indefinite renewal centred around the fact that it could be perceived that licence holders were being gifted a further, lengthy, renewal without being required to commit to provide anything further in the way of improved local content or public service broadcasting. Indeed it might in time act as a disincentive for some commercial radio stations to fully support a switchover. It was observed that spectrum is a valuable public resource and some respondents argued that it is not in the public interest to simply re-award space on the spectrum to an incumbent on an indefinite basis without the promise of a better or reinvigorated service for the listener.

A number of contributors pointed out that licences could not be awarded infinitely as the 2010 Digital Economy Act provides the Secretary of State with the statutory right to terminate any commercial analogue radio licence with 2 years’ notice in the event of a date being announced for a digital switchover. It was reiterated by some respondents that if it was the Government’s intention to pave the way for digital radio switchover, then option 3 would only potentially extend analogue licences up until the time when this occurs, at which point all licences would be terminated.

Of those respondents who opposed a renewal of any kind, concern was expressed at the prospect of a rollover of longer than five years. It was stated that the effects of this in terms of competition in the industry could be damaging, particularly if larger groups were incentivised to preserve the current duel transmission rather than use the space to promote the migration of listening to digital.

They argued that, although space is available on digital multiplexes for new entrants, FM in particular still accounts for a significant proportion of radio listening and hence advertising revenue. Additionally, the model of multiplex ownership means that it is often the dominant radio groups who control access to, and set entry prices for, the digital multiplexes, which some respondents argued did not create a level playing field for entry into the commercial radio market.

**Competition considerations**

We asked:

**We would welcome views from across the radio industry and beyond on the impact of any market competition issues resulting from the three options, and views on the impact of options 2 and 3 on commercial stations in smaller markets.**

All respondents agreed that with regards to competition issues in theory Option 1 i.e. to re-advertise the licences, was the option that best promoted open competition in the radio industry. However, it was argued by the majority of those who took part in the seminars and offered written responses to the consultation that following this route would not necessarily lead to a more competitive sector or new incumbents, and/or improved content or services.

Respondents noted that only 5 out of 294 local commercial analogue radio licences have ever not been re-awarded to the incumbents when opened up to competition. It was considered that the current provision of stations would have to be highly unsatisfactory to raise concerns with the regulator and subsequently award the license to a new incumbent following an open competition. Respondents felt that current listening figures were strong and this did not therefore indicate there was a problem with the level of service being provided by incumbents.

A number of contributors felt that entry to the market was possible, for example through DAB, particularly with the launch of the second national multiplex and continued expansion of the local DAB network. If the future of radio is to be a digital one, it was argued, then that is where new entrants should and indeed can establish themselves.

A small number however disagree with the prevailing opinion. They considered that renewing commercial analogue radio licences could simply serve to consolidate the position of the larger radio groups. By not allowing this renewal, new entrants would have the opportunity to benefit from what some still consider to be a lucrative platform, and this could be beneficial to consumers by increasing the range of radio stations available to them on analogue radio.

The bulk of contributors agreed that any licence renewal would be advantageous for commercial stations in smaller markets, primarily because it would save them the potentially significant cost of reapplying for their licence. It was asserted that margins are particularly tight for these stations, and any savings they can make could only have a positive effect on these businesses, and as a consequence their listeners.

Annex – Notes of consultation seminars

**Birmingham Consultation Seminar note**

**14.00-16.00, Monday 17th November, Free Radio, Birmingham**

**In attendance:**

Ian O’Neill OBE Head of Radio, DCMS

Sarah Baylis Policy lead, DCMS

Matt Payton Director of External Affairs, RadioCentre

Ben Walker External Affairs Manager, RadioCentre

Arun Bajaj Radio XL

Michael Betton Lincs FM Group

James Kotak Sabras Radio

Kirsty Leith Global Radio

David LLoyd Orion Media

Phil Riley Orion Media

Introduction

DCMS officials set out the intention of the seminar outlined, which was to explore in greater depth industry views on the three proposed options in the Government’s consultation on renewal of analogue commercial radio licences.

Due to the competition issues raised, DCMS has also commissioned Value Partners to produce research on the impact on competition in the market of each proposed option. This will inform the final policy decision and the report will be published on the DCMS website in due course.

Contextual issues

*Delegates were asked:*

* *What are the biggest challenges currently facing the sector?*
* *What has been the impact on individual businesses of the renewals permitted by the 2010 DEA?*
* *Impact on the wider sector of the renewals permitted by the 2010 DEA?*

Representatives said challenges included:

* It had been a difficult last half decade and radio is reliant on strength of the economy
* Audiences are stable, but in longer term decline
* Decline in national advertising income. Radio is a ‘price taker’ and not in a position to negotiate – it is a secondary medium and so must accept the prices offered
* Digital Economy Act 2010 (DEA) introduced the requirement to broadcast on DAB in exchange for a further renewal – but broadcasting on DAB is expensive
* For some operators, in total, there has been a squeeze on operating costs, profits, and audiences
* Others felt the DEA had not had a significant impact but commented on the cost of being on a DAB multiplex. Other stations represented at the seminar were experiencing the same squeeze on national revenue
* It was added that being on DAB is not beneficial financially
* Small local stations are also experiencing competition from community radio stations – they are competing for the same small business advertising revenue
* News of a potential second downturn was also a concern
* It was commented that Ofcom are doing a good job overall but current music formats are prohibitive so the current consultation on this is welcome
* The BBC is considered to be a significant competitor due to their significant marketing power. BBC Radios 1 & 2 considered to be offering a service that replicates what the commercial sector does, which is unhelpful
* Growth in the range of audio services also presented challenges for commercial radio, as well as the growth of BBC services
* Community radio was a significant concern for some small local operators. For the smallest local stations, share of advertising revenue has significantly declined as community radio stations did not exist in their area when their commercial licence was originally granted – so the competitive environment has changed
* Concern about community radio shared across all industry representatives present at the meeting
* Other delegates expressed concern about the BBC’s ‘indirect’ advertising power
* It was noted however that the changes brought in by the DEA had also had a positive impact, improving the viability of a number of stations, and enabling investment in online, content, and DAB. Others noted however that in some cases the regulatory changes had already been factored into companies’ acquisition models if/when purchasing stations, and was built into pricing early

Option 1: Do nothing

*Delegates were asked:*

* *What would be the impact on competition between radio groups if they have to rebid for licences?*
* *What would be the likely cost impact, including on investment in content, on stations bidding for licences?*
* *What assessment would you make of the number and extent of potential new entrants who may wish to bid for a newly advertised FM local or national licence?*
* *What might be the advantages to industry, and benefits to listeners, of re-advertising the licences?*

Comments included:

* Lengthier licence renewal would be advantageous so that companies can get a return on their investment. It was felt that option 1 would have a negative impact on long term, continued investment – in some cases owners may simply not continue to invest in content or DAB
* Some representatives considered that a five year extension (option 2) may not be long enough. Some companies have invested in DAB for a long time and there is currently still no economic return
* There is less of an incentive in particular for ‘heritage’ FM licences to go on DAB – digital listening to these stations is far below the share of digital listening nationally. A longer licence renewal would allow for a return on the investment in DAB
* Others stated that only a very small proportion of their listeners were via DAB, and that the station was only on DAB because of the link with further renewal
* Conversely, other delegates – whilst broadly supportive of option 2 – said that they were unafraid of the prospect of licence re-advertisement. Some stations’ licences are not linked to DAB through licence renewal, but they are still investing in DAB
* Option 3 caused some concern, for example because of concern that a digital radio switchover may not happen very quickly or may not happen at all. Long term, some feel that the continuation of ‘beauty parades’ is a better/fairer way to mete out licences
* Other delegates did not feel there were any advantages to incumbents of a beauty parade (e.g. as an opportunity to refresh a station’s offering or look again at the business) – given the sector agrees the future of radio is very much digital, it was not anticipated that in many cases there would be significant interest in local analogue licences
* Analogue licences are also less valuable than they used to be – so the environment would not change significantly as a result but operators would have been subjected to a lot of disruption. It was also noted that there are few instances historically of incumbents not winning back their licences
* It was commented that perhaps how localness in radio is protected should be reshaped, given that the licensing regime is less prescriptive following deregulation in recent years
* Some delegates noted that option 1 would be a significant distraction from business as usual. A significant amount of Programming time would be diverted to producing a bid should option 1 be followed through, and this would impact adversely on the production of content
* It would also absorb a significant amount of management time. As well as diverting resource from the business, it would divert funds, and this would be replicated across the industry across multiple applicants
* Delegates again raised that it was difficult to monetise additional DAB coverage - there is often little to no return on this investment
* Conversely it was noted that stations didn’t have to remain on DAB – they could remove their service from DAB and re-compete for an FM licence if DAB was such a concern.

Option 2: renewal of 5 years or longer/indefinite

*Delegates were asked:*

* *What are the advantages to industry of allowing a period of further renewal?*
* *What are the benefits to listeners of a further period of renewal for stations?*
* *To what extent do you think renewing licences will prevent new entrants? How likely/viable do you think other routes into the market are, particularly for small operators?*
* *Are there any distinct differences between a licence extension of five years and (i) one of a longer period or (ii) an indefinite period? What would be the impact on the sector and on listeners, for example, of an indefinite renewal?*

Comments included:

* It was restated that analogue licences are becoming less and less valuable
* Some delegates felt that a five year extension was about right, as even though shorter licence lengths could cause uncertainty, a five year extension would not preclude further licensing activity
* An indefinite extension (until a switchover) would preclude new entrants altogether and would be inappropriate if a switchover is further delayed or if it doesn’t happen at all
* It was felt by some that not allowing renewal would just cause uncertainty for listeners, clients, advertisers. Owners wouldn’t necessarily continue to invest
* It was also noted that very few licences have changed hands anyway so it would be a lot of disruption for no real reason
* Other delegates commented that the timing proposed in option 2 was slightly arbitrary – some operators’ sense is that switchover will be later than the early 2020s anyway
* Switchover itself is also perceived as too uncertain by some investors, so it would offer greater clarity and direction if licences were just made indefinite until a switchover
* One person suggested tying in the renewal length with multiplex renewals, where the intention is to extend until 2030.

**Edinburgh Consultation Seminar note**

**11.00 – 13.00, Thursday 20th November, Radio Forth, Edinburgh**

**In attendance:**

Ian O’Neill OBE Head of Radio, DCMS

Joe Lawrence Policy Advisor, DCMS

Graham Bryce Bauer

Adam Findlay New Wave Media

Blair Crofts Kingdom FM

Darren Stenhouse Kingdom FM

Spencer Pryor Eklipse Sports Radio Limited

Tracey McNellan Global

Matt Peyton RadioCentre

Ben Walker RadioCentre

Introduction

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Contextual issues

*Delegates were asked:*

* *What are the biggest challenges currently facing the sector?*
* *What has been the impact on individual businesses of the renewals permitted by the 2010 DEA?*
* *Impact on the wider sector of the renewals permitted by the 2010 DEA?*

Feedback included:

* Biggest challenge facing the radio industry is the recession and the fragile economic recovery. This creates uncertainty. Also issues around dual transmission costs
* The growth of the digital market place has increased competition for advertising massively. This is going to hit radio harder in the next ten years than it has in the past decade, as the younger generation (who listen to radio less) become consumers
* Advertising sales– 1 company, Group M hold 60 % of the market and therefore can massively influence industry pricing structure
* Other stations however were optimistic, particularly now the referendum decision has dispelled a lot of uncertainty around the radio industry in Scotland
* Cost of entry onto DAB massively prohibitive – a 5 year extension is therefore the natural step to take
* Fragile market place at the moment, with new competitors entering the radio industry on new platforms i.e. internet stations, that are not subject to the same regulation as traditional analogue radio
* Some representatives expressed a view that a switchover date should be totally market driven and not industry driven – therefore the whole premise of a digital switchover is fundamentally flawed
* The fundamental differences between TV and radio have not been understood in using the TV switchover as a template for radio
* Largest obstacle to the growth of DAB is price. Multiplexes are not priced competitively, with an uneven playing field in place – i.e. some stations get preferential rates over others
* The most critical issue in persuading commercial radio to fully embrace digital is to demonstrate the commercial value and viability of it
* Concern that advertising revenue is migrating online
* DAB is still too expensive. Transmission costs are a significant part of this (2nd greatest cost after staff salaries) and if reduced could make a noticeable difference in demonstrating the value of digital
* Ofcom DAB trial very interesting - £300/£400 a month would be a considerable saving
* Digital streaming is becoming a massive rival to DAB for the digital market
* The overriding push for digital should be completely market driven – a market point not a policy point. The criteria for a switchover should definitely be over 50 % listening on digital, allowing for a more organic transition
* BBC R1 and R2 are squeezing commercial radio’s audience share
* However, BBC’s MOU builds out more coverage and is very important in promoting digital.

Option 1: Do nothing

*Delegates were asked:*

* *What would be the impact on competition between radio groups if they have to rebid for licences?*
* *What would be the likely cost impact, including on investment in content, on stations bidding for licences?*
* *What assessment would you make of the number and extent of potential new entrants who may wish to bid for a newly advertised FM local or national licence?*
* *What might be the advantages to industry, and benefits to listeners, of re-advertising the licences?*

Option 2: renewal of 5 years or longer/indefinite

*Delegates were asked:*

* *What are the advantages to industry of allowing a period of further renewal?*
* *What are the benefits to listeners of a further period of renewal for stations?*
* *To what extent do you think renewing licences will prevent new entrants? How likely/viable do you think other routes into the market are, particularly for small operators?*
* *Are there any distinct differences between a licence extension of five years and (i) one of a longer period or (ii) an indefinite period? What would be the impact on the sector and on listeners, for example, of an indefinite renewal?*

Feedback included:

* Potentially disastrous to do nothing. It would cost operators a lot of money to re-bid, and would also create massive uncertainty in the digital world in the long term
* In theory not renewing would create more competition, however in practice this might not happen as the value in analogue licences comes from selling them, rather than running a radio station
* There is room for competition on digital though
* Cost of reapplying for a licence is high, and a phenomenal draw on resources, particularly for a small, independent station
* Radio has not bought into digital because they believe in it necessarily, but rather because of government/Ofcom encouragement and legislation. Some stations may have moved onto digital as a ‘rear-guard protection for analogue licences’
* It was commented that analogue and digital licences should be uncoupled – this will remove the burden of dual transmission and allow for a more natural progression to digital
* There are DAB black spots across the UK, and the format does not provide the ‘bouquet of stations’ that the public expects
* Price point is a huge reason in why take up on multiplexes is low
* In addition, the multiplex ‘gatekeeper’ ownership structure is flawed – they are run for profit, and do not price carriage in such a way that would encourage new entrants to the digital market
* In conclusion – industry in conflicted
* Re-advertising could bring back the spectre of the ‘6 Music problem’ i.e. upsetting fans who have become extremely loyal to ‘their’ station
* It was commented however that some city stations have moved away from their local service commitments and are basically becoming quasi-national networks in all but name. New licences should be issued – not issue licences ‘for life’
* 12 year licences could be too short though and would make shareholders nervous
* Commented that some groups have become unhealthily dominant in the market
* However it was thought that national commercial brands have created these networks in order to compete with the BBC nationally – it is the only way for commercial radio to come close to matching the spending power of the BBC
* DAB will grow once switchover has been announced. At the moment everything is in limbo; will we even persevere with DAB or will DAB + come into the equation?
* In conclusion some representatives commented that either Option 2 or 3 would work best; longer licence renewals would be better
* Others considered Option 2 to be most appropriate, as stations should have to justify their existence at some point
* It was also commented that automatic renewal is not necessarily in everyone’s game plan.

**London Consultation Seminar note**

**14.30-16.30, Wednesday 26th November, RadioCentre, London**

**In attendance:**

Ian O’Neill OBE Head of Radio, DCMS

Sarah Baylis Policy Lead, DCMS

Joe Lawrence Policy Advisor, DCMS

Surjit Singh Ghuman MBE Panjab Radio

Jason Bryant Town and Country Broadcasting

Jimmy Buckland UTV

Grae Allan Bauer Digital Radio

Tony Lit Sunrise Radio

Daniel Rose Freelance Media consultant

Colin Everitt Communicorp (UK)

Will Harding Global Radio

Matt Jamison Amazing Radio

James Posner Adventure Radio Group

Travis Baxter Bauer Digital Radio

Ford Ennals Digital Radio UK

Introduction

DCMS officials set out the intention of the seminar outlined, which was to explore in greater depth industry views on the three proposed options in the Government’s consultation on renewal of analogue commercial radio licences.

Due to the competition issues raised, DCMS has also commissioned Value Partners to produce research on the impact on competition in the market of each proposed option. This will inform the final policy decision and the report will be published on the DCMS website in due course.

Contextual issues

*Delegates were asked:*

* *What are the biggest challenges currently facing the sector?*
* *What has been the impact on individual businesses of the renewals permitted by the 2010 DEA?*
* *Impact on the wider sector of the renewals permitted by the 2010 DEA?*

Representatives said:

* One of biggest challenges in recent years has been the plethora of platforms that have emerged in the digital age i.e. streaming, internet radio etc. which are now competing with the industry for revenue and listeners
* Uncertainty around analogue licences is hugely destabilising for radio
* Advertisers are becoming increasingly uncertain about buying spots on radio and this will only be made worse if the confusion about the future of analogue radio licences continues
* Licences that did not benefit from Digital Economy Act 2010 (DEA) either were not contested or were simply re-awarded to the incumbents. Therefore some delegates were not supportive of the idea that re-advertising the licences would be good for competition in in the market
* However, none of the larger city licences have come up since the DEA so it is very difficult to say whether we can use the ones that have gone to competition as examples. It is likely that if a licence with a large TSA and which was therefore likely to generate a profit for the bidder came onto the market, that there would be fierce competition for such a licence
* It was said that London DAB is already profitable – and it was therefore questioned whether digital and analogue licences should be uncoupled as it seems digital now has a viable business model and no longer needs the same level of support
* Beauty Parade model of awarding radio licences may well be flawed if the current incumbents often do simply keep their licence – this isn’t necessarily good for increasing the diversity of radio. A recurring theme of discussion was also whether the current licensing framework was still appropriate to secure a range of diverse and local content.
* When the Greater London AM licence came onto the market, a fierce competition ensued, with 5 new formats bidding for the licence. There is some evidence therefore of the hunger that still exists for analogue licences
* At the moment it could be argued that there is a two tier system of radio licensing: operators who do not take up the option of a renewal tied to provision of a DAB service will not be granted the same certainty as those who do
* FM licences are desired by some DAB-only operators who wish to reach an audience that is not yet on digital
* But the point at which FM licences become available may be the point at which they are no longer very valuable due to growth in digital
* However was also felt that incumbents still value the analogue platform and DAB renewal may simply have been used to protect their FM frequencies. Consideration should be given to placing further requirements on operators who tie their FM renewal to provision of DAB
* At the moment radio is doing well, with record listening figures. Could be argued that this is demonstrative of the fact that listeners are satisfied with the content of radio
* Investment is needed for traditional radio stations to embrace new formats such as online and mobile apps – this cannot happen if there is uncertainty about the future of FM
* A lot of smaller stations, who are kept off digital by prohibitive costs, are fully reliant on the FM format and therefore are extremely concerned about the future of their FM licences
* Some delegates questioned whether the current system of ‘Gate keepers’ on the DAB multiplexes working and whether Ofcom allow commercial organisations to decide whether the competition should broadcast on their multiplex
* Radio would not exist without government regulation and licensing is an integral part of the radio business. Some therefore commented should licences be automatically extended, for free, to companies that should have accounted for the cost of bidding for licences in their business plans
* The stability that has been provided to the UK radio industry by the automatic extensions written into the DEA can be very favourably compared to the state of radio in the rest of Europe.

Option 1: Do nothing

*Delegates were asked:*

* *What would be the impact on competition between radio groups if they have to rebid for licences?*
* *What would be the likely cost impact, including on investment in content, on stations bidding for licences?*
* *What assessment would you make of the number and extent of potential new entrants who may wish to bid for a newly advertised FM local or national licence?*
* *What might be the advantages to industry, and benefits to listeners, of re-advertising the licences?*

Option 2: renewal of 5 years or longer/indefinite

*Delegates were asked:*

* *What are the advantages to industry of allowing a period of further renewal?*
* *What are the benefits to listeners of a further period of renewal for stations?*
* *To what extent do you think renewing licences will prevent new entrants? How likely/viable do you think other routes into the market are, particularly for small operators?*
* *Are there any distinct differences between a licence extension of five years and (i) one of a longer period or (ii) an indefinite period? What would be the impact on the sector and on listeners, for example, of an indefinite renewal?*

Feedback included:

* Was questioned whether option 1 (do nothing) implied a change in Government policy on digital radio. It could also be argued however that it implied that Government no longer believed renewals tied to DAB provision were still needed to incentivise digital growth, as DAB is now a significant platform for operators
* Indefinite renewal (Option 3) would not necessarily be *indefinite,* as the 2-year withdrawal clause would still exist to cater for a future digital switchover
* If digital is the future of radio, then surely it is not worth putting licences out to competition, as they will soon be worthless
* If a new entrant to the radio market were to win an analogue licence, it would be extremely challenging to grow an audience in 5 years (Option 2) and then migrate that audience over to digital
* Others felt however that the re-advertisement of licences was not necessarily catastrophic and not necessarily unwelcome in all quarters
* At the moment DAB does not provide an adequate revenue stream for those broadcasters that operate on that medium alone – consequently it would be beneficial to DAB operators to have the opportunity to bid for analogue licences
* It is possible that opening analogue licences to new bidders would increase radio provision for underrepresented groups i.e. ethnic and religious minorities – this would surely good for the industry and the country as a whole?
* If licences are not renewed for any period of time, and it seems that digital switchover is a distant prospect, then government investment in digital will be severely undermined
* The argument that re-advertisement raises standards is unproven –standards are driven by consumer demand – if the public was unhappy with the current offering, they would not be listening in record numbers
* In terms of cost, rebidding for a licence could cost as little as £15,000 to as much as £100,000/150,000 – the larger city licences would probably warrant the higher level of spending as these licences are likely to be heavily contested
* Some questioned whether this was just throwing money away when history shows that the licences will probably be re-awarded to the current holders
* Commercial radio relies on advertising to survive. Advertisers favour strong brands e.g. Kiss, Heart, Capital – if these brands were to disappear or contract due to loss of licences, revenue from advertising may reduce
* Some current formats maybe overlapping – putting licences out to competition may provide a wider range of formats to the listener
* A 5-year renewal would not actually be for 5 years – when ‘relevant date’ and time spent preparing licence application is factored in
* If government policy is digital switchover, why not provide indefinite licence rollover to allow for any other delays that may occur. Again, it will not be indefinite, due to Ofcom’s powers to terminate licences in the event of a switchover.



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www.gov.uk/dcms

1. Digital Radio Action Plan – DCMS 9 January 2014. https://www.gov.uk/government/publications/digital-radio-action-plan [↑](#footnote-ref-2)