

RADIOCENTRE RESPONSE TO DCMS CONSULTATION ON FURTHER RENEWAL OF ANALOGUE COMMERCIAL RADIO LICENCES

SUMMARY

1. Radiocentre welcomes this consultation and the general support from Government to enable analogue commercial radio licences (for AM and FM stations) to be renewed. In order to avoid unnecessary disruption to listeners it is imperative that an appropriate Legislative Reform Order is introduced without delay given the extremely tight timeframe before the first analogue licences are set to expire.
2. The Government is seeking views on three specific options for how to deal with the further renewal of analogue commercial radio licences.
 - Do nothing
 - Allow the renewal of licences for a further 5 year period
 - Allow the renewal of licences for a further 8 year period
3. In summary, we agree that these licences should be extended, as a way of supporting stability and growth of the commercial radio sector as it manages the transition of its audience from analogue to digital platforms. There is no evidence that re-advertising analogue licences at this point in the development of the industry would be of any benefit to listeners or the radio sector as a whole.
4. Therefore **we would urge DCMS to support the extension of these licences for a minimum of 8 years** (or ideally up to 12 years, so they are more in line with the current standard term of analogue licences re-awarded by Ofcom). We have responded to each of the options in detail within this document, but our views on each option are outlined briefly below.
5. **Option 1: Do nothing** – DCMS appears convinced that this should not be the favoured option. We agree. It would risk destabilising the radio industry at a critical point.
 - It would cost the radio industry many millions of pounds in direct costs just to prepare multiple bids for local and national licences.
 - It would lead to a reduction in investment and net revenue for commercial radio.
 - It would undermine consistent Government policy in support of digital radio.
 - Listeners could suffer as popular stations and brands change frequencies and go off air.
 - It would create significant difficulties for Ofcom in administering a relicensing process for no clear benefit.
 - There is no evidence that this would lead to any significant competition benefits.
6. **Option 2: Allow a further 5 years** – We are concerned that this approach will not provide a long enough renewal period.
 - It would demonstrate short-term support for digital radio, but risk making the same mistakes as in 2014/15 when the Government agreed to extensions of only 5 years.
 - Due to the nature of the renewal process – and expected trends in radio listening across digital and analogue platforms – it is quite likely that the same issues would need to be debated again in less than four years' time.
 - Debates on licence renewals at that point would not be a good use of Government and Parliamentary time, or the collective time and resources of the radio industry.
7. **Option 3: Allow a further 8 years** – We support further analogue licence renewals for a minimum of 8 years (with consideration of a longer term)
 - A longer extension will provide greater stability and certainty for the commercial radio sector and secure ongoing support for digital radio, which will benefit of listeners.
 - It would avoid having to find further parliamentary time to extend the licences further in less than 5 years' time.

- It will not prevent new entrants into the radio market – who now have more opportunities than ever through DAB and DAB+ (and small-scale DAB); rapidly growing online platforms; and acquisitions.
- These licences will still remain subject to termination at 2 years notice under the Digital Economy Act 2010, if there is a future decision on digital switchover.

BACKGROUND

8. Commercial radio is funded almost entirely by advertising and operates in a highly competitive market, generating more than £700m in revenues in 2019. Over 35 million people listen to commercial radio's mix of music, news, travel and local information every week. It also supports £683m in gross value added to the UK economy and over 12,000 jobs.
9. Commercial radio broadcasters are widely recognised as a force for good, providing significant public value through the provision of news and local information, but also through the charitable and other social value work that broadcasters support. While most radio content is made up of music, entertainment and speech, stations also provide an important role in supporting media plurality through the provision of local and national news. This output is valued highly by audiences, with radio consistently found to be one of the most trusted of all media in the UK and across Europe¹. Indeed research commissioned by Radiocentre found that 77% of listeners considered radio as a trusted source of news, compared to only 15% for social media².
10. The growth in digital and online platforms has had a significant impact on commercial radio. It has created numerous opportunities to distribute radio and audio content in different ways and has enabled radio companies to adopt new advertising models to support and monetise their content. However, it has also meant a vast expansion in competition and the shift to digital online advertising has been a driving force behind the reduction in commercial radio's share of advertising revenues and real terms decline in total revenues for the radio since the early 2000s.
11. In this increasingly competitive market commercial radio has needed to invest and expand its digital services. The Government's policy of supporting the renewal of analogue licences that are also carried on DAB has helped underpin this essential investment. Over 60% of all analogue commercial radio licences in the UK have now taken advantage of these licence renewals, with a combined audience of over 29 million listeners, including many much loved local and national radio station brands.
12. The renewal of analogue commercial radio licences was last reviewed by Government in 2014³. Following that review secondary legislation was put in place in 2015 to provide for a further 5-year renewal. These further renewals recognised the value of commercial radio and were intended to enable the industry to continue the process of managing the transition from analogue to DAB.
13. As a result commercial broadcasters have continued to invest significantly in new and innovative DAB services, expanding successful core brands with brand extensions, along with new music and genre stations. This has been possible due to the stability in the licensing regime, along with improvements in coverage, the additional capacity afforded by the launch of the Sound Digital multiplex in March 2016 and the expansion of more spectrum efficient DAB+ services. This proliferation of new services has had a notable impact on listening and supported strong growth in combined digital listening, which now stands at 58.5%⁴. Ofcom's Communications Market reports highlight that there were 425 services on DAB in 2015, which has risen to 492 in 2019.

¹ European Commission Eurobarometer study 109, 2019

² Radiocentre [Breaking News](#): How listeners value commercial radio news, 2017

³ <https://www.gov.uk/government/consultations/analogue-commercial-radio-licence-renewal-consultation>

⁴ RAJAR Q4 2019

CONSULTATION QUESTIONS

Question 1 – What is the likely impact on the radio sector if legislation is not changed? In particular, what would the benefits be in terms of widening choice and investment in local programming and what would be the cost and other impacts for commercial radio in rebidding for licences?

14. If the Government was to ‘do nothing’ by failing to introduce new legislation, this would in turn result in the licences approaching their expiry date and subsequently being re-advertised by Ofcom. The impact of this policy decision would cause significant disruption to the commercial radio sector and ultimately its millions of listeners, due to the costs, confusion and inconsistency of the approach. It is also possible, as new digital audio services and connected platforms evolve, that any disruption could result in listeners abandoning radio altogether.
15. Therefore we agree with the Government’s analysis that failing to allow further renewals carries a significant risk of weakening the whole radio sector at a time of change, when stability is crucial to giving companies the confidence to continue to invest for the future.
16. As we noted in our response to the Department for Digital, Culture, Media & Sport (DCMS) consultation on licence renewals in 2014, while it is technically the case that a ‘do nothing’ approach would mean no action as far as the legislation is concerned, it would ultimately be the most active policy decision with very serious consequences for both radio listeners and the radio industry. By choosing this approach the Government would in fact be doing the opposite of doing nothing. It would actually be the option with the most significant impact.
17. This approach would also undermine the consistent policy of successive Governments up until this point of providing broadcasters with a strong degree of certainty for their businesses, as well as an incentive to invest and continue to invest in future in DAB. Opening up these licences to re-advertisement would contradict this established policy (which has been so successful in supporting radio’s growth and digital transition) and reverse a consistent feature of the radio landscape since the 1996 Broadcasting Act, with subsequent legislation brought forward in 2003, 2010 and 2015.
18. Radio’s transition to digital platforms (including DAB) has shown great progress in recent years as a result of this policy, but it is far from complete and it would not be sensible to destabilise this positive growth. DAB is now more viable and popular, but removing a key plank of this success would be a big step backwards and send a confusing message at a time when investment is required to secure commercial radio’s position.
19. For broadcasters, it could be enormously disruptive if the Government chose to adopt this approach, especially as industry is at such a pivotal moment due to fierce competition for audiences and the seemingly unlimited choice available for listeners. The potential costs of a wholesale relicensing process are significant, particularly for such a relatively small industry. These costs would be both direct (licence applications, preparation and application fees) and indirect (reduced investment, lost revenue). In terms of direct costs, these would vary significantly, depending on the size and desirability of licences and whether they are contested. Nevertheless, we can offer some perspective on the range of costs involved and the different elements for a small or medium sized licence bid.
20. These figures (in Figure 1, below) are similar to those that were provided as part of the 2014 consultation but remain a reasonable estimate of the sorts of costs that would be involved for each applicant. That said, they come with a number of caveats. Clearly each bid is different, with the level of investment made by particular operators varying significantly according to the perceived value and importance of the licence and the extent to which external support is required. Hence the broad range of potential costs quoted for some aspects of this work.

Figure 1: Potential costs incurred in preparing commercial radio licence bid (illustrative)

Element of licence bid	Potential cost
Research with existing listeners	£5,000 – £10,000
Analysis of RAJAR audience data	£5,000 – £10,000
Market research (assessment of local tastes and interests, evidence of demand)	£15,000 – £50,000+
Local marketing, PR functions	£5,000 – £20,000+
Professional services/ consultants to prepare bid document	£5,000 – £10,000+

21. These estimates would indicate that the cost of preparing a licence bid would rarely be less than £30,000 for each applicant, even for the smallest commercial radio licences. This would be extended to nearer £100,000 for the more competitive mid-range licences. The potential complexity, competitiveness and strategic importance of obtaining the larger local licences, means that bids for those licences would incur additional legal and professional fees. In which case such applications would most likely result in a cost to applicants several time greater than the estimates provided above – with the preparation of these bids likely to cost well in excess of £150,000 each. This also *excludes* the non-refundable application fee payable by all those bidding for a licence. Ofcom's current tariff of application fees for local analogue commercial radio licences is as follows:

Figure 2: Ofcom application fees for local analogue commercial radio (2019/20)

Category	Population	FM	AM
A	4.5m +	£50,000	£14,500
B	1m – 4.5m	£25,000	£8,000
C	400k – 1m	£10,000	£3,500
D	0 – 400k	£5,000	£1,000

22. For the reasons outlined above, it is difficult to devise an aggregated figure for the total cost to the radio industry from initiating this process on such a large scale. However, given the volume of licences that would be up for renewal in the coming years (around 44 local licences initially, plus the 3 national licences – with up to an additional 122 licences also utilising the renewal process), it is easy to see how such an approach would inevitably lead to many millions of pounds of investment leaving the radio industry. This is a cost the radio industry can ill afford at a time of intense competition and pressure on revenues.

23. Moreover, there would be a risk of significant indirect costs from relicensing. These are more difficult to estimate without conducting detailed financial modelling, but it is clear that diversion of investment and management time into relicensing could undermine the financial viability of existing radio stations. In addition, it would take some time for any new entrant to build an audience and generate necessary revenues to recoup their investment, particularly on an analogue frequency where audiences are in decline. As a result, it is clear that the indirect net impact on commercial radio revenues from re-advertising the licences would also be negative.

24. Crucially, there is also no compelling evidence that this approach would provide any tangible benefits to the listener through an improved or expanded range of services. Even if some licences did change hands through re-advertisement, it is unlikely that the benefits would outweigh the disadvantages for listeners, particularly if stations change frequencies or cherished services go off air completely in some areas as a result.

25. In effect Ofcom would end up run a time-consuming and expensive process with little benefit to competition or to listeners. It is extremely rare that re-advertised licences change hands between operators. Since the launch of commercial radio in the UK in 1973 only a handful of licences (around 6) out of the 288 analogue radio services currently licensed by Ofcom have ever changed hands this way. This indicates that re-advertisement of licences is not an effective way of encouraging new entrants to the radio market.
26. Typically changes of ownership are much more likely to result from the open and competitive commercial practices of buying and selling licences. In fact over 80% of licences have changed hands through these normal commercial processes in the past fifteen years. Furthermore, there are now many more routes of entry for potential broadcasters (explored further in response to question 5) than ever before.

Question 2 – 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?

27. The option to renew licences for a further 5 year period is essentially the same policy option that was chosen by the Government in 2015. However, it a direct result of that policy decision (not to opt for a longer renewal period) that Government and industry are now in the process of reviewing the licence renewal process again in 2020.
28. As we pointed out in our response to DCMS in 2014 “having to debate these issues again, and potentially find further parliamentary time in less than 5 year’ time, would seem to be a rather unsatisfactory outcome, not to mention inefficient and duplicative, for both Government and industry”⁵. The proportion of digital listening has grown and analogue listening has declined since this time. Long-term listening projections are currently under consideration by the cross-industry review, led by DCMS. However, listening data from RAJAR⁶ shows that digital listening has risen steadily (now 58.5%) alongside a gradual decline in analogue listening (41.5%). These trends suggest that a further 5 years will not be sufficient, if the objective is to extend the licences to a point when national and large local services might consider switchover to digital only.
29. Were the Government to adopt a 5 year renewal period it would remove the immediate threat of widespread disruption to the industry, however, it is in effect closer to a 4 year renewal given the relevant date element needs to be taken into consideration. The relevant date is the point by which the existing licensee would ordinarily be required to renew. This is 12 months before the actual expiry date, in order to allow Ofcom sufficient time for the licence to be re-advertised, awarded and launched. Ofcom’s application date for applying is even earlier (usually 6 months prior to the relevant date).
30. For these reasons we believe that a further 5 renewal is simply too short and risks repeating the mistakes of the last consultation and Legislative Reform Order. Moreover, the process of reviewing, consulting and the subsequent legislative work that is required in order to adopt any changes is a significant administrative and financial burden both for industry, Government, Parliament and Ofcom. A renewal for a longer period of time would avoid this outcome and provide the opportunity to consider the issue once the transition to digital listening has progressed still further.

Question 3 – 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.

⁵ Radiocentre [response](#) to DCMS consultation on renewal of analogue commercial radio licences, Dec 2014

⁶ RAJAR Q4 2019

31. We welcome the fact that Government recognises the very real risks to the radio industry if it does not act to provide additional analogue licence renewals. We hope that the evidence that we have provided as part of this submission is helpful in further demonstrating these risks. It seems reasonably clear to us that the consequences we have highlighted (disruption to existing popular services; direct and indirect financial costs; loss of investment; risks to audience and advertising revenue) mean that the whole radio industry would be affected in a negative way if licence renewals are not agreed. As we have noted there is also no evidence to suggest that a process of re-advertisement of any licences of these would achieve the theoretical benefits of greater competition or supporting new market entrants.
32. Given Radiocentre's role as the industry body for commercial radio we are bound to support the option that we feel is best for the sector as a whole. In light of this responsibility – and the arguments we have noted above – the only position that we can realistically take is to support a consistent approach across local and national licences. To do otherwise would not only be inconsistent and difficult to justify logically, but also open up at least part of the commercial radio sector to the sort of negative consequences we have outlined with no obvious benefits. This approach also aligns with the Government and industry consensus on this issue up to this point, with only a small number of operators ever taking the view that there is any benefit to be gained from re-advertisement.

Question 4 – We would welcome views on the advantages and disadvantages to the radio industry and to individual stations of allowing a further eight year renewal.

33. Of the options that have been put forward in this consultation, Radiocentre supports a renewal period of a *minimum* of 8 years. We also believe that it is worth considering the case for longer licence terms, to provide greater stability and certainty for the commercial radio sector and secure ongoing support for digital radio for the benefit of listeners.
34. In making this proposal we note that, under the Digital Economy Act 2010, the Secretary of State for DCMS is empowered to terminate analogue licences with a two year notice period, at a point at which a digital switchover date is nominated. Consequently the Government has adequate powers should a longer term than 8 years be adopted, yet it becomes necessary as a result in a continued decline in analogue listening that a switchover has become inevitable.
35. Agreeing a renewal period of less than 8 years would risk many of the same issues outlined in response to Question 2 above in relation to the proposal for 5 year renewals. It could result in the Government having to come back and repeat this process again (especially given the fact that the relevant date and renewal process means that the term would be at least 18 months shorter), taking up Parliamentary ever more time with a discussion regarding the relicensing of even lower levels of analogue listening.
36. Therefore, taking these factors into account – and the effective two year break clause from the Digital Economy Act – we would ask DCMS to consider licence renewals of up to 12 years, which would be in more line with the current standard term of analogue licences re-awarded by Ofcom.

Question 5 – We would also welcome views and evidence on the impact of further licence renewals on commercial radio and on whether the current routes do provide a workable option for potential new entrants to the market.

37. Providing further licence renewals would provide significant benefits to the industry at a time when competition for the ear of listeners has never been stronger and there have never been so many options to enter the radio and audio market. The main routes to market for new entrants are to launch a DAB service (local, national or small-scale); provide a radio or audio service online; and/ or to acquire existing commercial radio licences. The evidence for developing viable routes to market in this way is compelling.

38. There has been an explosion of new services on DAB in recent years. Ofcom's Communications Market reports highlight that there were 14 national commercial services in 2015 which has risen to 34 in 2019, a 143 % increase. Overall there were 425 services on DAB in 2015, which has risen to 492 in 2019. The key difference that has driven the expansion of these stations in recent years is that it is now possible to build a financially viable radio station on the platform, due to the size of the audience for DAB services, improved coverage and reach of DAB sets in homes and now in cars.
39. Moreover, the Broadcasting (Radio Multiplex Services) Act 2017 made provision for the licensing and regulation of small-scale DAB across the UK following successful trials in 10 cities. Small-scale affords new entrants a viable low-cost entry to both small local commercial and community stations. Ofcom is expected to begin the licensing process later this year with the new licensed services likely to go on air before the end of 2020.
40. It is also worth noting the major shift in the platform share (a 33 % rise year on year⁷) of IP listening to live radio which includes smart speakers such as the Google Home and Amazon Alexa. While this is still a minority of digital listening overall (13 %) it is growing a faster rate than any other platform. This also excludes the growth in podcasts and online only services that are now able to build an audience and monetise audio content in a way that was not possible even 5 years ago.
41. The interest in radio and audio has also meant that the market for the sale and acquisition of commercial radio stations has been strong. As noted earlier, over 80 % of analogue licences have changed hands in the past 15 years, demonstrating the significant opportunity for new players to enter this way, or for existing players to expand without the negative impact of wholesale licence re-advertisement.

Question 6 – We would welcome views on a new requirement to allow smaller commercial stations to benefit from renewals if they take carriage on a small-scale DAB multiplex and whether the legislation needs to define what is meant by substantially the same measured coverage area or whether this should be left wholly to Ofcom's discretion.

42. We support the logical proposal for small analogue commercial broadcasters to benefit from licence renewals if they take carriage on a small-scale DAB multiplex which covers substantially the same measured coverage area as their licence.
43. In the same way that the original renewal process was conceived, this approach would provide the same incentive to operators to invest in the DAB platform. We do not believe that the legislation should define too narrowly what is meant by substantially the same measured covered area and that it would be more appropriate for Ofcom to outline this criteria, based on the coverage requirement for multiplexes outlined in the small-scale DAB legislation.
44. An important element that must be considered when addressing this issue is a scenario where a local FM station is not able to gain access to a regional DAB multiplex which is operating at full capacity. In this instance – because of the way in which the small-scale multiplex 'polygons' have been created by Ofcom – it is possible that one small-scale DAB multiplex would be insufficient to meet the criteria of substantially the same measured coverage area. Therefore Ofcom may need to apply a degree of flexibility in observing the spirit of the legislation by enabling licence renewals in circumstances where small-scale DAB services are doing all they can to cover substantially the same measured coverage area, but may be constrained by the way in which these services have been rolled-out.

⁷ RAJAR Q4 2019

ABOUT RADIOCENTRE

Radiocentre is the industry body for commercial radio. We work on behalf of more than 50 stakeholders who represent over 90 % of commercial radio in terms of listening and revenue.

We perform three main functions on behalf of our members:

- Drive industry revenue by promoting the benefits of radio to advertisers and agencies through a combination of marketing activity (e.g. events, advertising, PR, and direct mail), research, and training
- Provide UK commercial radio with a collective voice on issues that affect the way that radio stations operate, working with government, politicians, policy makers and regulators to secure the best environment for growth and development of the medium
- Ensure advertising messages on commercial radio stations comply with the necessary content rules and standards laid out in the BCAP Code of Broadcast Advertising and the Ofcom Broadcasting Code.

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