

RADIOCENTRE RESPONSE TO DCMS SELECT COMMITTEE INQUIRY INTO THE FUTURE OF PUBLIC SERVICE BROADCASTING

INTRODUCTION – THE PUBLIC SERVICE ROLE OF COMMERCIAL RADIO

1. Commercial radio plays a critically important role in the distribution of public service content in the UK, providing news, journalism, and entertainment across the country. 89% of the UK tunes into radio every week, 36 million people (around 66% of the population) to commercial radio, for an average of 13 hours each week. Listeners to commercial radio stations represent a broad cross section of the population, with the sector attracting a significantly more ethnically and socially diverse audience than the BBC.
2. The public value benefit of commercial radio is vast, including local news bulletins, community and social action, music, technology and innovation. Commercial radio engages with millions of listeners every day, broadcasting scores of community bulletins each week and stations are embedded in the communities they serve.
3. Radio is consistently found to be the most trusted source of news and information available to audiences in the UK¹ and Europe². In a 2017 survey of listeners 77% of people responded that they see radio as a trusted source of national news, more than any other media. This is particularly important in an era where fake news is proliferating – just 15% of those responding to the survey, for example, say they trust social media for national news³.
4. Radiocentre reports periodically on the extensive public value provided by commercial radio stations across the country. The latest report, published in December 2018, highlighted that on average each station provides around 10 hours of public value output, made up of news & sport, travel, weather, local events and charity appeals a week. Collectively, radio stations also organise and attend over 10,000 local and charity events a year and directly raised £30m for charity in 2017⁴. For example, Radiocentre pioneers Radio Audio Week⁵ each year, which consists of a series of events including conferences, lectures, seminars, awards and networking events at different locations around the country. It has also been used to raise awareness of mental health issues, both ensuring the positive mental health of those working in the industry but also exploring the important role that listening to radio can play in the lives of people suffering with mental health issues.
5. Commercial radio also has a substantial reach to local communities across diverse locations of the UK. Radio advertising revenue is the principal income stream for commercial radio, enabling its content to be provided to listeners for free. This advertising spend also provides a substantial boost to the UK economy and businesses. Part of this boost is through the return on investment (ROI) that advertisers enjoy as a direct result of investing in the medium. Previous research conducted by the analysts Holmes & Cook⁶ has found that radio provides an average return on investment for advertisers of £7.70 for every £1 they spend. Applying this to advertising revenues

¹ Ofcom survey '[News consumption in the UK](#)' (June 2017)

² European Commission ([Eurobarometer](#) 92, 2019)

³ Radiocentre [Breaking News: How listeners value commercial radio news](#), 2017

⁴ <https://www.radiocentre.org/wp-content/uploads/2018/12/Valuing-Radio.pdf>

⁵ <https://www.radiocentre.org/uk-radio-industry-announces-first-radio-audio-week/>

⁶ <https://www.radiocentre.org/roi-multiplier/>

for the entire industry means that the total ROI over £5.2bn. New analysis conducted for this report has also sought to break this down to the local and regional level for advertisers, providing a summary of the ROI provided across all parts of the UK. It found that the total annual value for local advertisers alone was over £1.6bn, underscoring the benefits of local radio advertising around the country⁷. These results are particularly important for SMEs looking to invest in advertising.

6. In terms of reaching a diverse audience, commercial radio performs strongly, particularly when compared to the BBC. For example, the sector reaches 62% of black, Asian and minority ethnic (BAME) listeners, compared to a 42% reach by BBC services. We also reach 67% of listeners considered to be in a lower socio-economic classification (C2DE), with only 52% reached by the BBC. A 2019 *Tuning in to Diversity* report⁸ provides examples of work by small specialist stations like Panjab Radio, Mi-Soul, London Greek Radio, Sabras Radio and Sunrise Radio in their local community and a snapshot of the diversity of these stations. Unsurprisingly, it found that these stations have some of the highest levels of workforce diversity within the industry, with many reporting ethnic diversity well above 90%.

ACCESS TO RADIO PSB

7. Nonetheless, economic pressures threaten the delivery of public service content. Commercial radio is funded entirely by advertising and operates in a highly competitive market, generating £703 million in ad revenues in 2019⁹. It also supports £683m in gross value added to the UK economy and over 12,000 jobs.
8. In common with many other public service broadcasting companies, the growth of the internet has transformed the world in which radio and media companies operate, creating a huge range of new opportunities while presenting numerous complex challenges. In particular, there has been a significant shift in advertising revenues to online platforms. In the last 20 years digital advertising has grown from around 1% to a more than 50% share of UK ad revenue. This transition of ad-spend to online is the most significant economic trend that has put pressure on revenues across all media. These changes have seen radio's share of ad revenue decline since the early 2000s. The digital advertising market does not appear to be functioning in a fair and effective manner, and RadioCentre recently welcomed the Competition and Markets Authority (CMA) investigation into the digital advertising market in February 2020¹⁰.
9. In addition, competition for audiences has never been more intense due to the range of entertainment options now available. Online services like Spotify and Apple Music – which are not subject to any significant form of content regulation – are starting to account for an increasing proportion of overall listening time (particularly among younger audiences). The latest RAJAR MIDAS survey found that on-demand music services now account for 14% of the share of audio listening on average, rising to 44% for those in the 15-24 year old age group. While this fragmentation has had limited impact on total audience, average time spent listening to radio overall has reduced from 22.5 hours per week in 2008 to 20.2 hours in 2020. Listening habits have been particularly effected by the growth of digital listening on DAB and online platforms like smart

⁷ <https://www.radiocentre.org/wp-content/uploads/2018/12/Valuing-Radio.pdf>

⁸ <https://www.radiocentre.org/wp-content/uploads/2019/06/Tuning-In-to-Diversity-Online.pdf>

⁹ <https://www.radiocentre.org/the-audio-market/ad-revenues-and-forecasts/>

¹⁰ <https://www.radiocentre.org/wp-content/uploads/2020/02/RC-response-to-CMA-online-platforms-study-Feb-2020-FINAL.pdf>

speakers, as well as greater competition for listeners from podcasts and music streaming services dominated by US tech giants such as Amazon and Google.

10. Radio listening is consistently found to be one of the most popular uses of smart speakers, therefore this constitutes a significant opportunity for commercial radio. However, it also has the potential to be a significant threat if one of the most important routes to market for radio is effectively owned and controlled by the US tech companies who will be able to act as 'gatekeepers' to radio content and custodians of valuable audience data. This is in stark contrast to the traditional broadcast model for radio where access to listeners is not mediated by a third-party, but managed by regulators that allocate broadcast licences and distributed on transmitters owned or leased by the broadcaster.
11. Due to this shift there is a risk that digital platforms could exploit their market power in this context, particularly regarding opportunities in digital audio advertising on smart speakers. In addition, it is likely to create greater opportunity for the sort of disaggregation of content that has been so damaging to news publishers. These changes alone have the potential to impact negatively on consumers, but there are also associated risks to provision of easy and free access to UK radio content. For radio businesses to remain viable in this new environment their output needs to be accessible on all platforms (with consideration given to potential 'must carry' arrangements) and findable by listeners. Therefore we would urge the Committee to consider the prominence and access of public service audio content within the scope its inquiry, and to support the work of Ofcom and the CMA in developing regulation to address the dominance of the digital platforms.

Commercial radio is innovating to meet the online challenge

12. Much of the innovation in radio and audio has been driven by the expansion of digital technologies. This has brought opportunities and innovation as radio stations seek to provide a greater range of content and choice for audiences. It has also presented challenges as audiences fragment due to intense competition and advertising investment is driven online. The radio sector has sought to address these issues in a number of ways, including through collaboration on technology and exploring new partnerships to support news and public service broadcasting more generally.
13. Collaboration on technology and platforms makes sense given that the whole of the public service broadcasting radio industry (BBC and commercial) face similar challenges and trends in audience behaviour. A growing proportion of radio listening is now online, through mobile phones, smart speakers and other internet enabled devices. While radio companies will wish to develop their own apps and online portals, there is also a value in radio broadcasters working together in this environment to keep radio listening simple and accessible for listeners.
14. One way that the sector has been seeking to do this is through the Radioplayer online listening platform, a joint venture between the BBC and commercial radio bringing together online radio listening and providing the opportunity for broadcasters to work together. This technology and joint approach has been exported and is now used in 12 countries, including the all major markets in Europe. This is important because as online listening and platforms continue to grow, so will the need for the radio industry to be able speak with one voice, especially with car companies, hardware manufacturers and technology platforms.

Existing public support for commercial radio

15. In addition, commercial radio has been involved in the development of a 3-year contestable fund pilot scheme for radio, known as the Audio Content Fund (ACF), financed by DCMS using unallocated licence fee funding. This fund is responsible for distributing a grant of up to £3 million which is being used by independent production companies to produce distinctive, public service radio content for broadcast on commercial and community radio. The aim of the fund is to support high-quality, public service programming that is traditionally more difficult to support on a commercial basis (such as documentaries, comedy, drama).
16. Since its launch in April 2019 the ACF has distributed £1m to companies across the UK for a range of projects on radio stations of all sizes. This has included around £400k for 28 new projects during April and May 2020 as part of a special Support Audiences During Coronavirus initiative. This led to the production and broadcast of content on a diverse range of topics and genres including mental health, support for key workers, discussions on domestic violence, education, comedy, sport and virtual music festivals.
17. We understand that the ACF pilot will be reviewed ahead of the 2021-22 financial year and then assessed before the end of the pilot. Based on its strong performance and public value so far (for a relatively small investment) our view would be that it should continue to be supported, with even greater levels of funding and ambition.
18. This successful pilot also opens up further questions regarding the potential for the development of similar schemes, which could also be used to distribute public funding to support investment in a broad range of public service content that may be difficult to support commercially. In particular, it is worth exploring the potential for more arm's-length Government funding specifically for news and journalism on radio and audio platforms.

Role of BBC Radio

19. The BBC currently receives around £3.7bn pa of licence fee funding to support its operations, which is due to increase by inflation until 2022, when its funding settlement will be reviewed. According to Ofcom the BBC spends over £740m of this funding on UK radio services, more than the total revenues of the entire commercial radio sector. As well as this funding advantage BBC radio stations have preferential access to broadcast spectrum and huge marketing and cross promotion power across TV and online. These factors contribute to BBC having a dominant market share in radio (50%).
20. Commercial radio has traditionally supported universal funding for the BBC for it to deliver distinct, public service radio content. We have not supported privatisation of BBC radio and there is currently no viable subscription model for radio in the UK. However, due to its funding model and powerful position in UK broadcasting, it is right that the BBC is subject to independent regulation – and obligations on distinctiveness and market impact.
21. In 2016 Radiocentre welcomed the new obligations on the BBC in exchange for guaranteed licence fee income, with Ofcom taking on the role of external regulator. Specifically the Charter and Framework Agreement stated that Ofcom “must seek to increase the current requirements on the BBC as a whole to secure the provision of more distinctive output and services”¹¹.

¹¹ BBC [Framework Agreement](#), Schedule 2, Section 2

22. The Charter and Framework Agreement included specific guidance on what will be expected of BBC services in future. The clear direction to Ofcom when creating the BBC operating framework was to: increase the current range of regulatory requirements and have a presumption against the removal of existing requirements. For radio this included specific measure to re-enforce the distinctiveness of Radio 1 and Radio 2. Despite this guidance, Ofcom has overseen a reduction in the obligations on BBC radio services and the BBC has sought to entrench its market dominance by outlining plans for new radio services and expanding its range of online services on the BBC Sounds platform. We hope that the upcoming mid-term review of BBC regulation will examine this issues in further detail and look again at measures that were supposed to increase the distinctiveness of BBC radio and audio.

GETTING REGULATION RIGHT

23. Digital technology has transformed Britain's public service broadcasting. These changes are exciting but also present huge challenges for media companies and their regulators. Competition for advertising revenues is intense with online platforms attracting ever greater investment, while audiences have fragmented due to the unprecedented choice on offer. The regulation of commercial radio has not kept pace with these changes and until recently has remained largely locked into analogue-age system devised in the late 1980s.

24. Regulatory reform is critical so that radio stations can fully embrace technological change and invest in programming, journalism, public service content and new digital services. It is therefore important to get the right balance on regulation for established media platforms (radio, TV etc) and online platforms.

25. Until now there appears to have been a reluctance to tackle the complexity and practical difficulty of regulating the internet in any meaningful way. To some extent this is understandable, especially at the point when internet businesses were becoming established initially. However, this position is becoming increasingly untenable as the power of online platforms, such as Google and Facebook, become ever greater and the implications of this power and dominance become clearer, whether in terms of the personal privacy of individuals, the spread of harmful online content or their near monopoly of online advertising. A new regulatory framework, as proposed by the government and being considered by the CMA and Ofcom is urgently needed to protect consumers help restore some balance to the media industries.

Future regulation of commercial radio

26. The Government response to the DCMS consultation on commercial radio deregulation was published in December 2017 and proposed a number of sensible changes suitable for a digital future¹². Some of these operational changes around deregulation have supported flexibility to deliver public service content using online technologies.

27. This included proposals to end the outdated format requirements (where Ofcom determines the music output of local radio stations and operators are required to seek permission to make changes) and a focus on valuable news output rather than how and where this is produced. Such changes are relatively modest compared to the task of regulating online platforms, but they

¹² DCMS consultation '[Commercial radio deregulation response](#)' (December 2017)

represent useful accompanying measures that will assist in supporting a more level playing field in terms of future regulation.

28. In parallel, Ofcom has modernised its regulatory requirements on commercial radio. This has enabled commercial radio groups to innovate and deliver content in new and exciting ways, providing the best possible mix of national, regional and local output for audiences across their networks. This has proved popular with listeners and underpinned the capacity of radio stations to compete more effectively with the BBC and online streaming services, while continuing to provide valuable news and information output (as demonstrated by the sector's response to COVID-19 and its continuing public value role). Indeed, as commercial radio has evolved in this way the level of investment in local news and journalism has increased.
29. For radio businesses to remain a viable part of the public service broadcasting sector in this new environment their output needs to continue to be supported and regulated appropriately. During lockdown, Ofcom has relaxed regulation in order to allow public service broadcasters like commercial radio to survive and prioritise high quality news output. Radiocentre welcomed this move and would urge the DCMS Committee to support steps by Ofcom to make these changes permanent.
30. There are also a number of other possible regulatory changes that would help to support the long-term viability of commercial radio, including steps to revise the current requirements for long and garbled terms and conditions (Ts&Cs) at the end of radio ads. These disclaimers are particularly intrusive in an audio environment, but crucially are found to be ineffective as a form of consumer protection. They are also estimated to cost the radio industry around £120m a year in lost advertising. Many of these requirements derive from European legislation (e.g. the Consumer Credit Directive), so there will opportunity to revisit these requirements and simplify them once the Brexit process is complete.

COMMERCIAL RADIO PUBLIC SERVICE DURING NATIONAL EMERGENCIES

31. The public value of commercial radio is perhaps best encapsulated during times of emergency. At these crucial times commercial stations are extremely well placed to provide listeners with up-to-the-minute coverage of both local and national emergencies. Major incidents trigger well-rehearsed plans that enable stations to alter programming and get journalists on the ground to provide audiences with trusted, accurate information. Covering breaking news always requires a tailored response. For those on the move, the latest travel bulletins are essential for keeping journey times down and during major weather events local updates provide vital information to listeners. There are numerous examples of incredible responses that radio stations have provided to recent significant events, including terror attacks, national weather emergencies, and more recently COVID-19.
32. Research suggests that more and more people are turning to trusted news and entertainment during lockdown. A recent survey from research company DRG for Radiocentre found that a significant proportion (38%) of listeners are listening for an extra 1hr 45 minutes per week on average. According to the DRG research, the reasons people give for listening longer to the radio as they spend more time at home are unsurprising and include the following: – Keeps me in touch with the outside world (90%) – Keeps me informed (89%) – Keeps me company (84%) – Makes me feel happy (77%) – Delivers trusted news (64%).

33. It is clear from this that, even in these very difficult times, commercial radio retains very strong foundations with a large and loyal audience that recognises the value of its output more than ever. Recent research from the Reuters Institute that highlighted the low levels of news avoidance for radio during the coronavirus pandemic, when compared to news on TV, newspaper brands and social media. The challenge for the commercial radio sector, working with Government and Ofcom, will be to build on this to ensure that as many stations as possible can remain viable over the coming months and continue to provide this value in the face of unprecedented economic challenges.
34. Despite the very difficult current backdrop, commercial radio is providing significant value for audiences and has stepped up the frequency and duration of news coverage across the vast majority of stations and networks. This has meant additional news coverage and regularly refreshed bulletins 24 hours a day every day, as well as special coverage of Government daily news briefings and breaking news flashes.
35. In fact, as a result of COVID-19 many of the most popular commercial radio brands have increased the number of daily bulletins on air by over 50%. Commercial radio also continues to provide a valuable regional or local angle on COVID-19, most notably by tracking the impact of the virus in specific communities, nations and regions of the UK. This has been especially notable as the authorities in England, Scotland, Wales and Northern Ireland have all started to outline slightly different approaches to ending the current lockdown.
36. However, the current economic shock due to COVID-19 means a significant number of commercial radio stations may not be viable without further financial support or significant cost reduction. The falls in advertising revenue across the industry are unprecedented. Commercial radio is expecting year-on-year declines of over 50% in Q2 2020, with many local stations reporting significantly greater reductions of up to 80-90% due to their reliance on small local advertisers and SMEs that have been unable to trade and moved quickly to cancel their campaigns.

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.

www.radiocentre.org

June 2020