Media 42

Written Submission to the National Assembly for Wales Task & Finish Group on Media in Wales

January 2012

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Section 1

Introduction – The Digital Decade

1.1 Ofcom is the independent regulator and competition authority for the UK communications industries, with responsibilities across broadcasting, telecommunications and postal services. We welcome this opportunity to submit evidence to the National Assembly for Wales' Task & Finish Group on the future outlook of the media in Wales.

1.2 Our main legal duties relating to the media are to ensure:

- a wide range of high-quality television and radio programmes are provided, appealing to a range of tastes and interests;
- television and radio services are provided by a range of different organisations;
- people who watch television and listen to the radio are protected from harmful or offensive material; and
- people are protected from being treated unfairly in television and radio programmes, and from having their privacy invaded.

1.3 We are not responsible for regulating:

- the content of television and radio adverts — this is a matter for the Advertising Standards Authority;
- complaints about accuracy in BBC programmes — these are a matter for the BBC itself;
- the BBC TV licence fee — this is a matter for the UK Government; or
- newspapers and magazines — these are a matter for the Press Complaints Commission.

1.4 The media industry is without question one of the most innovative, dynamic and progressive industries in the world. In recent years, viewers and listeners in Wales have benefited from significant changes in the way television and radio services are delivered on a range of interchangeable devices and through online applications.

1.5 During the past decade the UK's communications market has experienced rapid change:

- the majority of homes are now connected to the internet and faster broadband connections have become available;
- there has been huge growth in consumption of mobile voice and data;
- the vast majority of homes have adopted digital, multichannel TV – penetration has increased from 36% to 93%;
- digital radio services now make up over a quarter of all radio listening; and
- smartphones are enabling people to access the internet while on the move.

1.6 However, for established broadcasters, these rapid and constant technological changes and the consequent explosion of consumer choice brings new challenges through increased competition for listeners and revenues; and increased costs from having to invest in new platforms and online business models.

1.7 Take-up of new devices, such as HD-ready TVs, digital video recorders (DVRs) and MP3 players, has become more widespread and consumers now have access to much greater choice and control over the ways that they consume audio-visual content in (and away from) the home than they did at the start of the 21st century.

1.8 As well as broadcast TV, many consumers can now watch video content delivered over the internet to any one of a number of devices (PC/laptop, mobile device or games console). Audio-visual content can also be captured, stored and viewed at a later date, and paused in real time. Whilst the shared common experience of TV means that the vast majority of TV viewing will remain in linear form for most consumers for the foreseeable future, linear TV will have to adapt to stay relevant in an "on-demand" world.

1.9 Furthermore, the pressure on commercial broadcasters has been further accentuated by consumer demands for local programming and the loss of advertising revenue over the last decade. In real terms, annual spend on broadcasting channels by advertisers has declined, falling from £5.9 billion in 2000 to £4.5 billion in 2010 (see figure 1.1 below).

Figure 1.1: Real-terms broadcasting advertising spend, RPI adjusted: 2010 prices

1.10 While our research has found that the public values content on television and radio that reflects local identities, local programming is expensive to deliver and the commercial realities of increasing competition mean that producing a high volume of local programming is no longer as commercially sustainable as it used to be.

1.11 In 2010, public service broadcasters spent £2.9 billion on television programming, with £2.5 billion of this being spent on first-run originated output. In real terms, this is at the same level recorded in 2000 (see figure 1.2 below).

Figure 1.2: Real-terms network spending on public service broadcasting

1.12 Commercial radio revenues have also fallen over the last ten years, falling in real terms from £0.7 billion in 2000 to £0.4 billion in 2010. Over the same period, we estimate the BBC's spend on radio has remained broadly consistent (see figure 1.3 below).

Figure 1.3 - Radio industry revenue and spend

1.13 In summary, the past decade has witnessed a transformation of the UK media market. The main underlying cause has been the huge growth in competition in all parts of the communications sector, which has led to falling prices, increased choice and new innovations. Improvements in technology, including the advent of smartphones, DVRs and MP3 players, have also led to huge changes in how consumers engage with communications services.

1.14 These related trends of growing competition and improving technology are almost certain to continue in the future, meaning that transformation of the media sector is likely to accelerate rather than slow down. Devices such as smartphones and tablet computers are likely to become more popular, and as more and more devices are connected to the internet, online services will become more diverse and be used for a wider range of purposes.

1.15 In view of these challenging market trends and the considerable pressures which face the media in the UK, our goal is to ensure that the regulatory regime is clear and consistent to enable content providers to generate revenues; flexible enough to adapt to cloud-based convergence and rapidly changing circumstances; and robust enough to ensure that the increasingly heterogeneous interests of citizens and consumers continue to be met through the delivery of high quality public service content provided by a multitude of voices.

Section 2

Executive Summary

2.1 The contents of this written evidence can be summarised as follows.

Section 3: Television Service Availability

2.2 Satellite remains the most widely-used platform on main TV sets in Wales. The proportion of homes in Wales with satellite TV (whether pay or free) is at 51%.

2.3 Sixty per cent of adults with a TV at home in Wales have a pay TV service.

2.4 The Virgin Media cable television network is only available in the urban areas of south Wales, mainly in Cardiff, Newport, Swansea and parts of the Vale of Glamorgan serving 23% of the Welsh population compared with a UK average of 45%.

2.5 Six in ten (59%) people in Wales have an HD-ready TV set, and about half of these also claim to have access to HDTV channels (via cable, satellite or digital terrestrial television – DTT).

Section 4: The Provision of Audio-Visual Content in Wales

2.6 Public service broadcasting (PSB) television is provided by five broadcasters in the UK – BBC, ITV 1, Channel 4, Channel 5 and S4C. Three of them – ITV Wales, BBC Wales and S4C – provide programming aimed specifically for viewers in Wales.

2.7 There was an 11 percentage point reduction in the combined share of the public service broadcasters' main channels in Wales over five years. The combined share now stands at 53% in Wales.

2.8 In 2010, ITV 1 Wales' audience share (standard definition) was 17.5% compared with a UK average for ITV 1 of 16.6%.

2.9 In 2010, BBC Wales' audience share (standard definition) was 19.3%, compared with a UK average for BBC 1 of 20.6%.

2.10 The grant received by the S4C Authority from the UK Department for Culture, Media and Sport (DCMS) in 2010 was £101.6 million and in addition it received around 10 hours of programmes per week free of charge from the BBC (worth £23 million a year).

2.11 In 2010, following the UK Government's Spending Review, the Secretary of State for Culture, Olympics, Media & Sport confirmed a 24.4% reduction in S4C's funding over 4 years and an intention to replace S4C's current statutory funding formula which is linked to RPI. In addition, from 2013/14, S4C's funding will be provided by a combination of Exchequer funding, commercial revenue and the Licence Fee under a partnership with the BBC Trust.

2.12 In October 2011, the BBC Trust and the S4C Authority reached an agreement over the future and funding of S4C until 2017. S4C's allocation would fall from £76.3m in

2013/14 to £74.5m in 2016/17 as part of the new relationship between the two broadcasters.

2.13 In 2010, S4C Welsh language programmes were watched for an average of 19 hours per year by all individuals in Wales.

2.14 The weekly reach of Welsh language programming on S4C was 17% in 2010, equalling the previous year. In 2010, S4C's share of all viewing was 1.3%.

2.15 As S4C is a publisher broadcaster, the majority of its programmes are sourced from a range of independent producers based primarily in Wales.

Section 5: The Media Landscape in Context – Our Reviews of Public Service Broadcasting

2.16 Our first PSB Review concluded that there was continued demand for PSB but that the existing model of ensuring it is provided by commercially funded channels would not survive the transition to a wholly multi-channel world unchanged.

2.17 In the Review, we reiterated the view that regional news was the most important element of regional provision for audiences in the devolved nations as well as in the English regions.

2.18 With respect to non-news regional programming, we concluded that the needs of the devolved nations of the UK are distinct from those of the English regions.

2.19 The Review concluded that there was a continued requirement for programming that reflects the distinct identities, cultures, histories and interests of Wales.

2.20 However, it was recognised that with the approach of digital switchover, the surplus value of the Channel 3 broadcasters' analogue licences (after taking PSB obligations into account) would diminish and we proposed a reduction in the minimum requirement for regional non-news in the devolved nations, from four hours per week to three hours, when the first UK region achieved digital switchover to aid the overall sustainability of the ITV services in the nations.

2.21 Since the first PSB Review concluded in early 2005, the media landscape evolved rapidly. Viewer adoption of digital technology grew significantly, and the combined share of the five terrestrial PSB channels continued to fall. As a result, we announced in May 2007 that we would bring forward our second PSB Review.

Section 6: Models for the Devolved Nations

2.22 We agree that the new politics which devolution has brought about requires a vibrant, widely accessible media to report and sustain it. Welsh audiences ought to have a choice of high quality original news and non-news programming relevant to their lives and the area in which they live, provided by multiple voices.

2.23 In response to our consultation on the second PSB Review, there was a general recognition that maintaining plurality in news coverage was particularly important, given the relatively sparse news provision from Wales' indigenous print media.

2.24 In our second Review, we argued that due to the value which audiences in the devolved nations attribute to plurality of provision, a BBC-only model was unlikely to be sufficient.

2.25 The devolved legislatures of the UK are able to support new institutions and models to provide a wider range of public content beyond news but we do not believe there is a one-size-fits-all solution to satisfy the needs of each nation.

2.26 However, there are certain shared features. Principal among these is the attachment to the existing services provided by Channel 3 licensees and a preference for a structure with a separate Channel 3 licence for each nation. We accept the argument for creating a separate licence for Wales.

2.27 In 2008, The Welsh Government's Broadcasting Advisory Group proposed the creation of a Wales Media Commission. Our approach to the funding of nations news was closely aligned to this funding agency model with a focus on ITV Wales as a medium for delivery.

2.28 In our second PSB Review, we proposed three models for the digital world, all of which would require significant change to the existing legislative framework – an enhanced evolution model; a refined BBC/Channel 4 model; and a refined competitive funding model.

2.29 In summary, we concluded that the options were:

- do nothing, and allow provision to decline over time, against clear audience preferences;
- provide new public funding for Channel 3 licensees in the devolved nations and English regions;
- introduce competitive funding for services in the devolved nations and English regions to enable other providers to bid, potentially enabling the creation of cross-media services in Scotland, Wales and Northern Ireland; and
- fund the creation of dedicated channels for the devolved nations, such as that proposed by the creation of a Wales Media Commission.

2.30 Our provisional conclusions from our second PSB Review were:

- the BBC should remain the cornerstone of public service content, and its core programme and services budget should be secure;
- audiences should have a choice of providers in most areas of public service content, which the market alone will not provide.
- public service remits should be delivered across digital platforms in future, although linear TV remains essential;
- the provision of content for the devolved nations – in particular dedicated news – remains an essential requirement for any future model;
- institutional and competitive funding could both play important complementary roles in the future model for public service content;

- Channel 4 should have a significant public service role in the digital age, building on its current contribution. It needs an economic model and funding mechanism to support this; and

- between now and 2014, ITV1 and Five should retain important roles focused on UK origination and news, and (for ITV 1) the devolved nations and English regions and (for Five) children's content.

2.31 In Wales, as a condition of retaining nations news on ITV Wales, we reduced the minimum requirement for news minutage from 5 hours 20 minutes to 4 hours, and reduced minimum requirements for nations and regions non-news programming from 3 hours to 1.5 hours.

Section 7: Recent Market Trends & Developments

2.32 Since our second PSB Review, technological innovations and the growth of the DTT platform have increased viewer choice and competition between providers for viewers' time and attention. Furthermore, it is possible that the commercial networks' reliance on advertising revenue could threaten the sustainability of the public service licences in the years to come.

2.33 However, the demand for linear television – including public service content – has remained resilient despite the pace of technological change and growth in viewer choice.

2.34 Spend on devolved nations and English regions output by the BBC and Channel 3 combined fell by £93 million or 26%, from £359 million in 2006 to £266 million in 2010.

2.35 A total of £25 million was spent on English-language content for viewers in Wales in 2010, down 13% on 2009.

2.36 S4C spent a total of £79m on first-run programming in 2010, a 3% increase in nominal terms on 2009.

Channel 3 & Channel 5 Licence Renewal

2.37 Each of the fifteen regional Channel 3 licences, the national Channel 3 breakfast licence and the Channel 5 licence are due to expire on 31 December 2014.

2.38 On 1st July 2011, DCMS asked us to provide the Secretary of State with advice about the options for relicensing Channel 3 and Channel 5.

2.39 Under the Act, the Secretary of State is able to:

- instruct us to proceed with the renewal process which may result in ten year licences being granted to the existing licensees from 1 January 2015;

- block licence renewal, leaving us to award vacant licences, resulting in ten year licences to new licensees from 1 January 2015; or

- extend the existing licences for a period of his choosing (at any time).

Measuring Plurality across Media

2.40 We have been requested by the Secretary of State to provide advice to the Leveson Inquiry on media plurality. We will do so by June 2012.

Welsh Government – Creative Industries

2.41 Following Professor Ian Hargreaves' Review of Creative Industries in Wales, the Welsh Government has begun implementing his recommendations including the creation of a new Creative Industries Strategic Hub; the launch of a Digital Wales Advisory Board; the implementation of a Welsh Government framework for *Delivering a Digital Wales*; and the creation of a new Creative Industries Fund.

UK Government – Local TV

2.42 In July 2011, the UK Government published a new framework for local television which set out proposals to create a number of local television service licences. We have provided information on the locations where local broadcast services via DTT might be technically possible.

2.43 We identified 6 locations in Wales: Bangor; Cardiff (to include Bridgend/Newport); Carmarthen; Haverfordwest; Mold (to include Denbigh/Ruthin); and Swansea (to include Llanelli)

Section 8: The Current Media Landscape in Wales – Compliance with PSB Regulatory Obligations

2.44 Television broadcasters have to comply with a number of regulations originating from UK or European legislation. The Communications Act 2003 describes a range of obligations that are designed to ensure that certain types of programmes are produced and broadcast in sufficient quantity. The Act places a duty on us to agree quotas with the broadcasters and monitor compliance for certain types of programme.

2.45 The following quotas are applicable to the BBC, ITV 1, Channel 4, Channel 5 and S4C:

- independent productions – programmes made by companies that are independent of broadcasters;
- original productions – programmes commissioned by broadcasters from in-house production resources or qualifying independent producers;
- out-of-London productions – network programmes made in the UK outside the M25;
- devolved nations and English regions programmes on Channel 3 and the BBC – made and shown in the nations and regions; and
- UK & International News and Current Affairs

Section 9: Radio in Wales – Introduction & Our Regulatory Role

2.46 Our research has found that the public values local content on commercial radio that reflects local identities. However, local programming is expensive to deliver and the commercial realities of increasing competition mean that producing a high volume of local programming is no longer as commercially sustainable as it used to be.

2.47 Our role is to ensure that regulation is appropriate to the central challenge of securing the delivery of local radio content in the light of financial realities, while at the same time creating an industry structure for the future.

2.48 Consequently, we have already taken active steps to reduce the regulatory burden on the commercial radio sector and have attempted to align the analogue and digital regimes more closely, taking into account the duties and aims, set out by the UK Parliament.

Section 10: Radio in Wales – Stations

2.49 The BBC provides two national services for Wales: Radio Wales (on AM and FM) in English and Radio Cymru (on FM) in Welsh. In addition, there are 18 commercial analogue radio stations licensed to broadcast in Wales and 9 licensed community radio stations.

2.50 Radio Cymru's FM service covers 94.8% of the population. However, as Radio Wales began primarily as an AM network, its FM coverage is more restricted, reaching just 68% of the population.

2.51 At an average of 23.3 hours per week, hours of radio listening are higher in Wales than in any other UK nation (UK average – 22.3 hours).

2.52 Large numbers of BBC Radio Wales listeners rely on an AM service. 55-60% of people in Wales are currently unable to receive BBC Radio Wales or BBC Radio Cymru on DAB and about 70% of Welsh speakers cannot receive BBC Radio Cymru on DAB, contrasting with 80% coverage for BBC Network Radio stations in Wales.

2.53 Given Wales' topography with significant mountainous areas where FM, let alone DAB reception, is difficult, the provision of AM reception in cars will continue to be important for the foreseeable future.

2.54 The share of listening of local commercial radio stations in Wales was at just over a quarter (26%). This was lower than the other UK nations with Scotland at 41%, Northern Ireland at 32% and England at 31%.

2.55 Revenue generated by the commercial stations in Wales totalled £16.3 million in 2010. Adjusting for population size, Wales had the lowest revenue per head of the UK nations, at £5.41.

Section 11: Community Radio in Wales

2.56 In Wales, there are currently nine licensed services currently on air.

2.57 In April 2011, we announced a third round of community radio licensing. However, it will not be possible to launch new services in several areas of Wales, including Newport and Swansea, due to a shortage of available frequencies.

Section 12: Digital Radio in Wales

2.58 DAB radio is currently delivered across Wales via the UK BBC multiplex and the Digital One multiplex, owned by Arqiva. The combined coverage of both multiplexes serves around 68% of the population in Wales. In addition south Wales is served by the Severn Estuary regional multiplex, which also covers the west of England, and two local commercial multiplexes serving Cardiff/Newport and Swansea.

2.59 Digital radio listeners living in the larger conurbations of Cardiff, Swansea and Newport receive up to 32 DAB stations. These include the 23 UK-wide BBC and commercial stations, along with BBC Radio Wales / BBC Radio Cymru and additional local services serving South Wales carried on the two local commercial multiplexes.

2.60 However, the BBC's services for Wales are only carried on local commercial multiplexes and in order to extend their reach, we have, over the past two years, awarded local multiplex licenses covering most of the rest of Wales. There are currently no local DAB services on air in North or Mid Wales. Therefore, the coverage of BBC Radio Wales and Radio Cymru is still currently limited to south and east Wales.

2.61 However, in response to concerns expressed by The Welsh Government, the BBC Trust's Audience Council for Wales and our Advisory Committee for Wales, regarding the coverage of Radio Wales and Radio Cymru on DAB, we have, in recent years, prioritised the advertising of local commercial multiplexes for other parts of Wales.

2.62 Furthermore, the UK Government has indicated that we will be given the power to extend the coverage area of local multiplexes into unserved areas without having to award new licences.

2.63 In March 2011, the UK Government published a Digital Radio Action Plan (DRAP). At its request, we have chaired a DAB coverage and spectrum planning group to 'determine the current level of FM coverage and develop a range of options to increase DAB coverage to match FM'.

Section 3

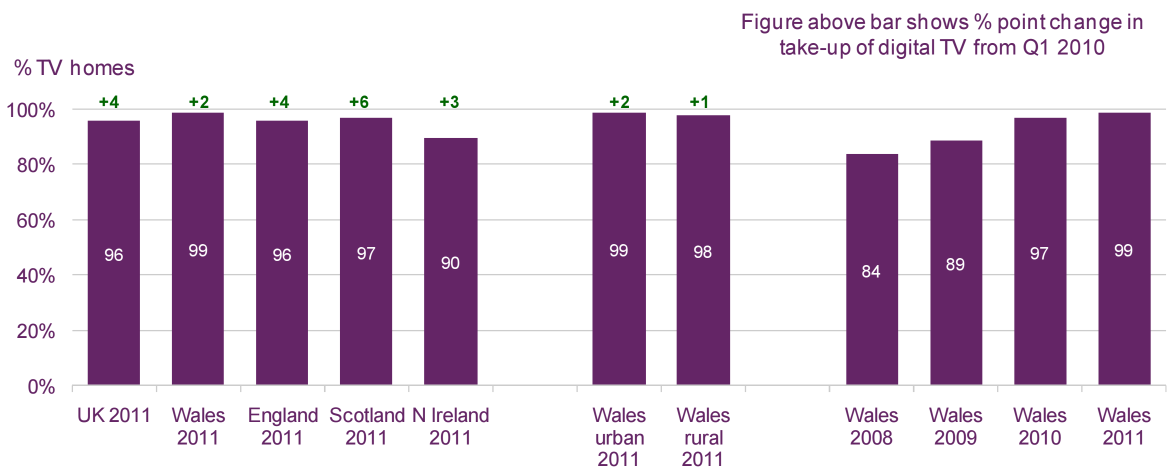
Television Service Availability & Take-up

Digital Television Take-up in Wales

3.1 Historically, the topography of Wales has presented significant engineering challenges to the goal of securing universal television reception. Although the population of Wales is only around 5% of the UK population, it is served by 20% of the UK's transmitters in a complex network of 214 main transmitters and relays.

3.2 On 31 March 2010, Wales became the first nation in the UK to switch completely to digital television. Along with the ten sites which were already transmitting digital terrestrial television (DTT) the remaining 204 relays were converted to digital transmission. Virtually all homes with a TV in Wales (99%) now report that they have access to a digital television service.

Figure 3.1 – Digital Television Take-up in Wales



3.3 In line with the UK Government's objective that digital versions of the former analogue channels (BBC Wales, BBC 2, ITV 1, S4C and Five) should be as widely available on terrestrial television as they were before digital switchover, all transmitters in Wales broadcast three digital signals, known as "multiplexes", which carry digital version of the former analogue channels. These signals contain up to 37 television, radio and interactive channels.

3.4 While all transmitters broadcast three multiplexes, only the larger transmitters (such as Wenvoe, Carmel, Preseli, Kilvey Hill, Blaenplwyf, Moel-y-Parc, Llanddona and Long Mountain) broadcast an additional three commercial multiplexes. These commercial multiplexes are not required to match the coverage of the public service signals as they do not carry any public service channels. Full six multiplex coverage is available to around 73% of households in Wales, where reception of up to 110 television, radio and interactive channels is possible.

Figure 3.2 - Availability of Public Service Broadcast (PSB) Channels (June 2011) – Wales

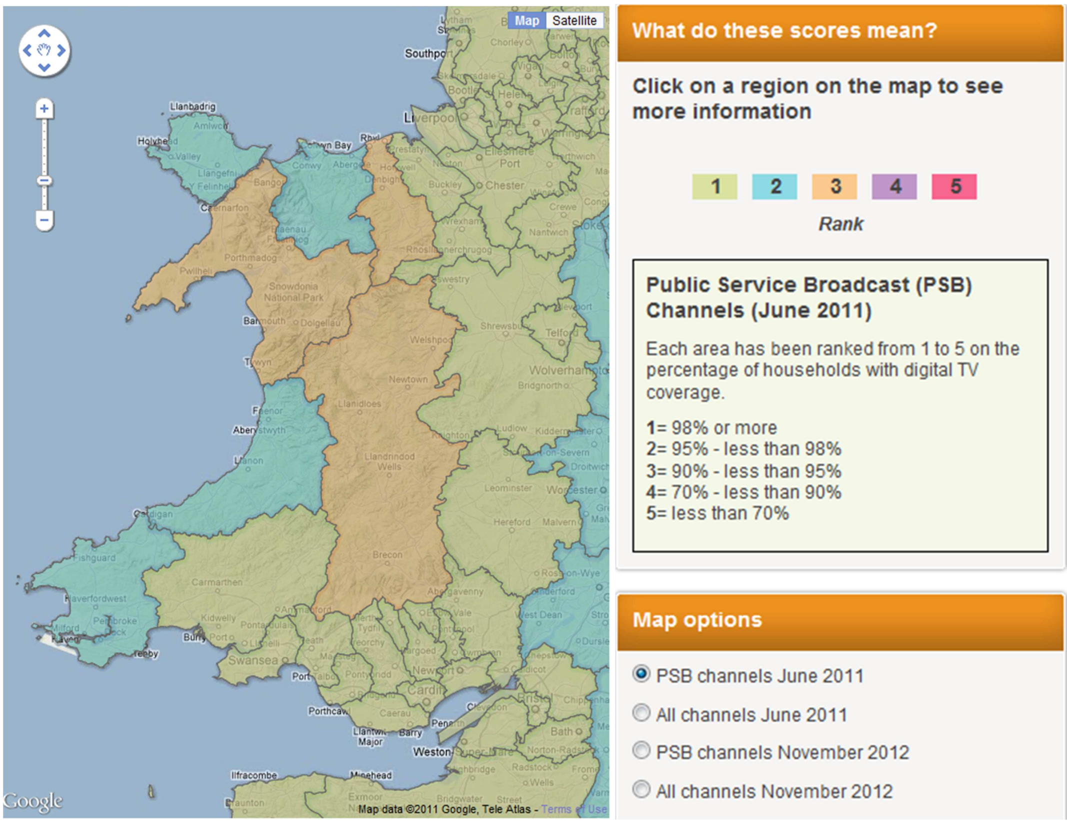
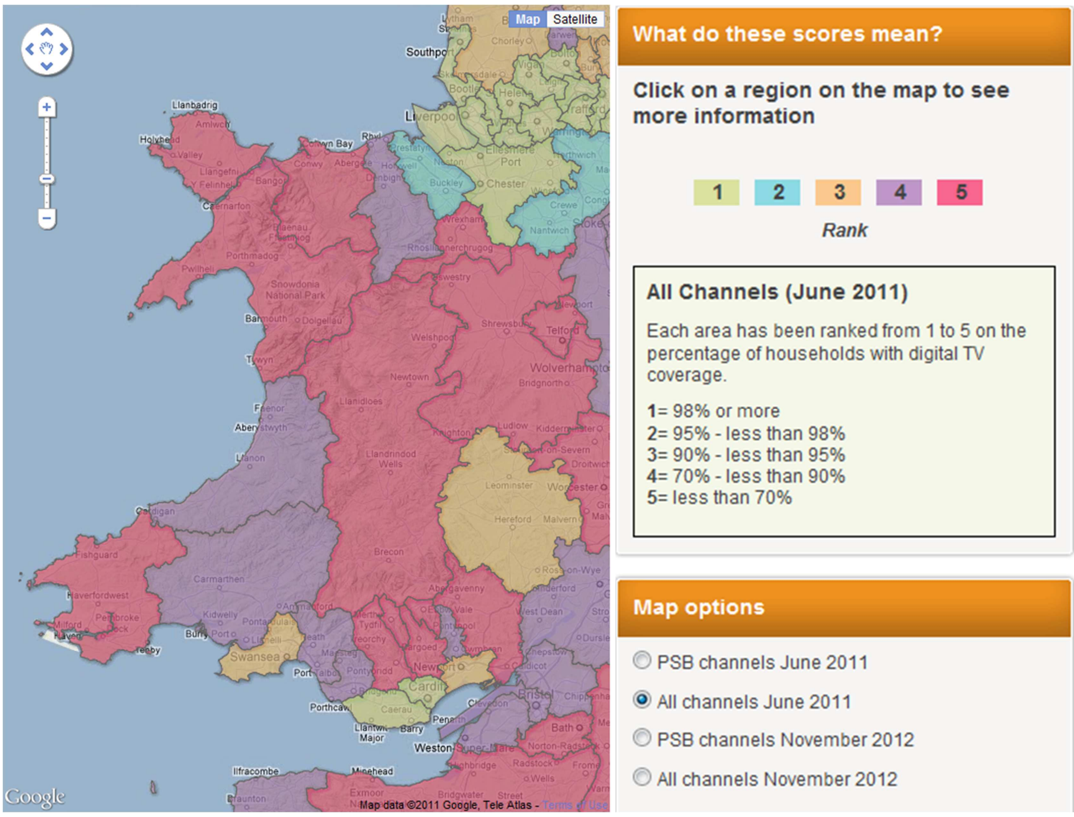


Figure 3.3 - Availability of All Channels (June 2011) - Wales



Viewing Platforms

3.5 Satellite remains the most widely-used platform on main TV sets in Wales. The proportion of homes in Wales with satellite TV (whether pay or free) is at 51%.

3.6 Sixty per cent of adults with a TV at home in Wales have a pay TV service.

3.7 The Virgin Media cable television network is only available in the urban areas of south Wales, mainly in Cardiff, Newport, Swansea and parts of the Vale of Glamorgan serving 23% of the Welsh population compared with a UK average of 45%.

Figure 3.4 – Main set TV share in Wales, by platform

Access to HDTV

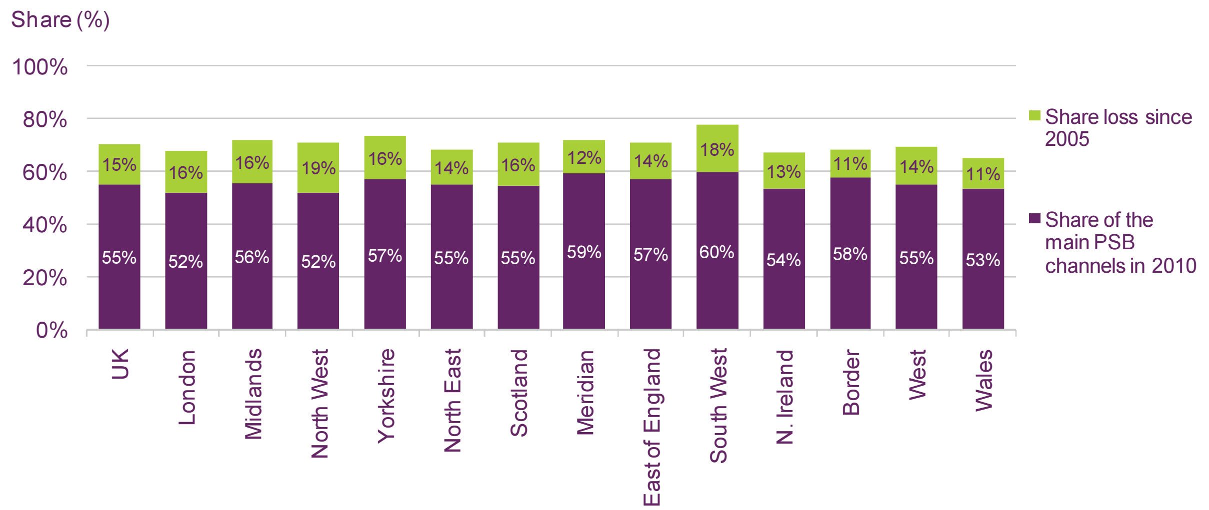
3.8 Six in ten (59%) people in Wales have an HD-ready TV set, and about half of these also claim to have access to HDTV channels (via cable, satellite or Digital Terrestrial Television). This equates to 30% of adults in Wales having access to HDTV channels, marginally below the UK average (32%). The most commonly used platform to access HDTV channels.

Figure 3.5 - Proportion of homes in Wales with HD-ready TV sets and HDTV

Broadcast Television Viewing

3.9 There was an 11 percentage point reduction in the combined share of the main PSB channels in Wales over five years. The combined share now stands at 53% in Wales.

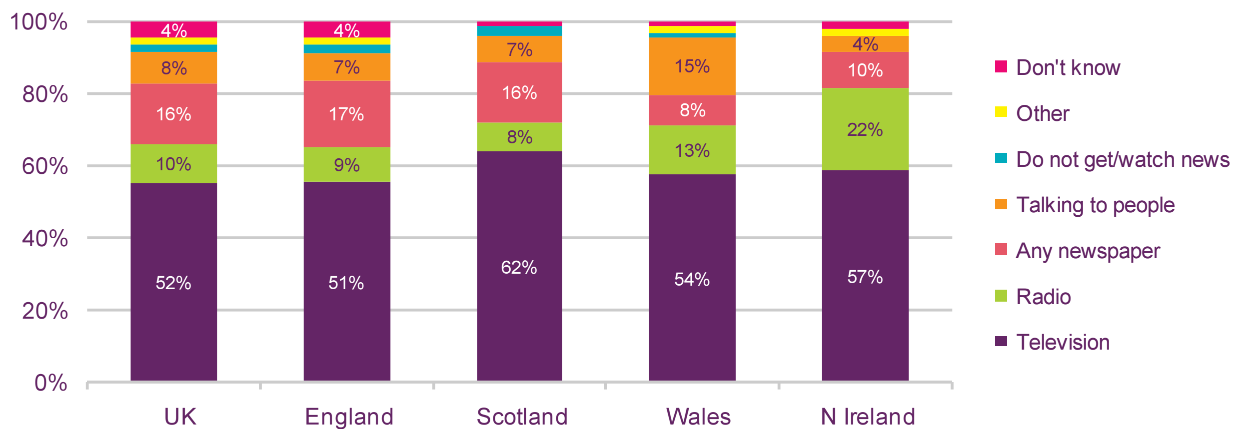
Figure 3.6 - Combined share of PSB channels



Sources of Local News

3.10 In 2010, 54% of adults in Wales said that TV was their main source of local news, marginally higher than the UK average of 52%. "Talking to people" was mentioned by 15%, significantly higher than the UK average of 8%.

Figure 3.7 – Sources of Local News in each nation: 2010



Section 4

The Provision of Audio-Visual Content in Wales

4.1 Public service broadcast television is provided by five broadcasters in the UK - BBC, ITV 1, Channel 4, Channel 5 and S4C. Three of them – ITV Wales, BBC Wales and S4C provide programming aimed specifically for viewers in Wales.

ITV Wales

4.2 Following the introduction of commercial television into Wales in the late 1950s, a dual Channel 3 licence area covering Wales and the West of England was eventually created, held initially by TWW and from 1967 by HTV. During the 1970s, HTV established two services, HTV Wales and HTV West and after numerous changes of ownership, this licence is now owned by ITV Plc.

4.3 Since 1954, the federally structured Channel 3 network – based on separate regional licences – has been able to compete effectively with the BBC in both nations and regions news and in other programming for the nations and regions, including current affairs.

4.4 In the 1990s, take-overs and mergers transformed this fully federal structure of 15 separate companies into a more centralised operation. The network now comprises ITV plc (11 licences which includes the ITV licence for Wales and the West of England) plus the three remaining non-ITV plc owned companies (two licences held by STV, and one each by UTV and Channel).

4.5 This federal system is only sustainable if the benefits to ITV plc of PSB status significantly outweigh the obligations imposed. During our two Reviews of Public Service Broadcasting, we predicted that digital switchover and multi-channel growth would reduce the benefits of Channel 3 licences to the extent that ITV may have commercial incentives to surrender its PSB status. We consider this further in detail in section 4 of this submission.

4.6 In 2010, ITV 1 Wales' audience share (standard definition) was 17.5% compared with a UK average for ITV 1 of 16.6%. ITV 1 Wales' audience share at peak time was 23.7%, compared with a UK average share for ITV1 at peak time of 21.7%.

BBC Wales

4.7 The BBC was established by Royal Charter in 1927, with a mandate to inform, educate and entertain its audience. The BBC Welsh Region was given its own separate frequency for television broadcasting in 1964 and was renamed as BBC Wales. Welsh language programmes were first broadcast on television in 1953, and there has been daily provision of television programmes in Welsh from 1957 until November 1982 when the BBC's Welsh language output transferred to S4C.

4.8 BBC Wales provides television programming for viewers in Wales in English on BBC 1 Wales and BBC 2 Wales.

4.9 In 2010, BBC Wales' audience share (standard definition) was 19.3%, compared with a UK average for BBC 1 of 20.6%. BBC Wales' share at peak time was at 22%, compared with a UK average share for BBC 1 at peak time of 22.9%.

S4C

4.10 S4C was established under the 1980 Broadcasting Act along with its regulator, the Welsh Fourth Channel Authority. S4C began broadcasting in November 1982. Previously, Welsh language television programmes had been screened at peak time on BBC 1 Wales and HTV Wales. The creation of S4C fulfilled demands from Welsh speakers for a better television service and it reduced the irritation felt by non-Welsh speakers by removing Welsh language television programmes from peak slots on BBC Wales and HTV Wales.

4.11 The 1980 Broadcasting Act also gave S4C the right to access Channel 4's programmes, free of charge, which could be rescheduled around peak-time Welsh language output. However, when the analogue service ceased broadcasting when digital switchover was completed in Wales on 30th March 2010, S4C became a wholly Welsh language channel, broadcasting over 115 hours of programmes each week, across a range of platforms, including online.

4.12 The grant received by the S4C Authority from the UK Department for Culture, Media and Sport (DCMS) in 2010 was £101.6 million and in addition it received around 10 hours of programmes per week free of charge from the BBC (worth £23 million a year). It is expected to fall to about £20 million by 2013). The BBC was required, under provisions in the 1980 Broadcasting Act, to provide Welsh language programmes, free of charge, to meet "the reasonable requirements" of the Welsh Authority. This was modified in the 1990 Broadcasting Act to "not less than ten hours of programmes per week".

4.13 This provision has previously been subject to intrinsic tensions and during Phase 3 of our First Review of Public Service Broadcasting, we set out the view that S4C should develop a new relationship driven by 3 core principles of transparency, financial commitment and editorial control.

4.14 Subsequently, in autumn 2006, S4C and the BBC reached an agreement described as a "Strategic Partnership", which addressed these issues. This agreement included a funding commitment from the BBC for its statutory supply to S4C and included provision for the BBC Trust and the S4C Authority to agree programme commitments and core obligations in line with the BBC's public purposes and Charter obligations.

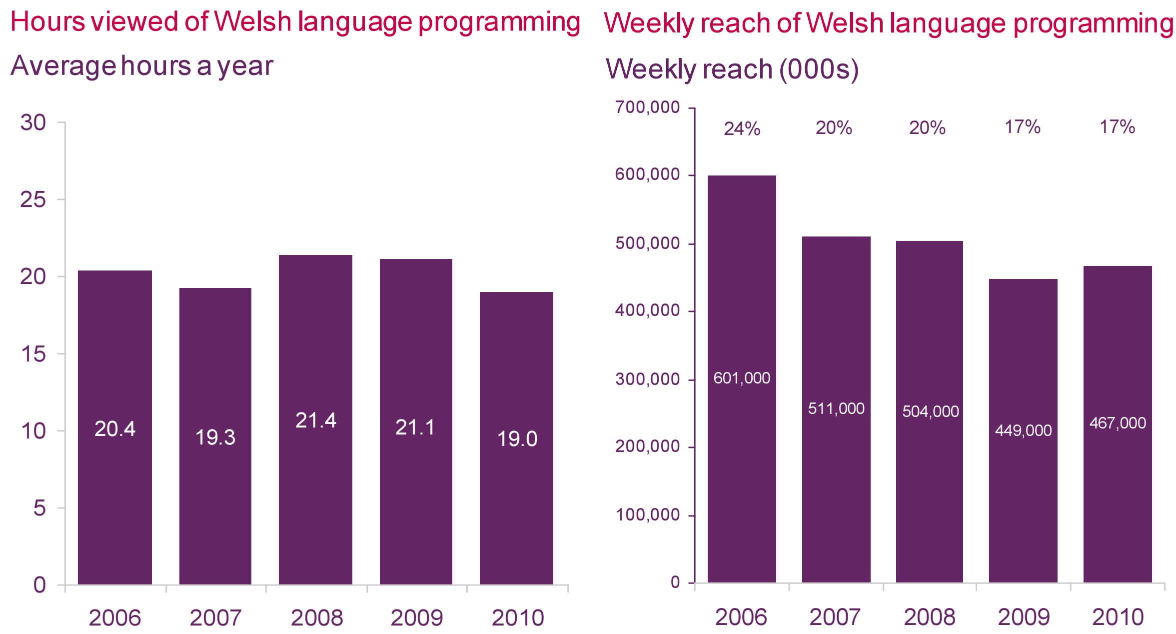
4.15 In 2010, following the UK Government's Spending Review, the Secretary of State for Culture, Olympics, Media & Sport confirmed a 24.4% reduction in S4C's funding over 4 years and an intention to replace S4C's current statutory funding formula which is linked to RPI. In addition, from 2013/14, S4C's funding will be provided by a combination of Exchequer funding, commercial revenue and the Licence Fee under a partnership with the BBC Trust.

4.16 In October 2011, the BBC Trust and the S4C Authority reached an agreement over the future and funding of S4C until 2017. S4C's allocation would fall from £76.3m in 2013/14 to £74.5m in 2016/17 as part of the new relationship between the two broadcasters. The funding does not include the 10 statutory hours of programming per week which the BBC currently provides S4C free of charge, which includes flagship programmes such as the soap opera, Pobol y Cwm, and the news service, Newyddion.

4.17 In 2010, S4C Welsh language programmes were watched for an average of 19 hours per year by all individuals in Wales; this is a decrease on the average hours watched in 2006 (20.4 hours), and is lower than the average hours watched in 2009 (21.1 hours).

4.18 The weekly reach of Welsh language programming on S4C was 17% in 2010, equalling the previous year, but the weekly reach based on thousands saw an increase year on year with 467,000 individuals tuning into the channel.

Figure 4.1 - Viewing of Welsh language output on S4C, 2006 – 2010



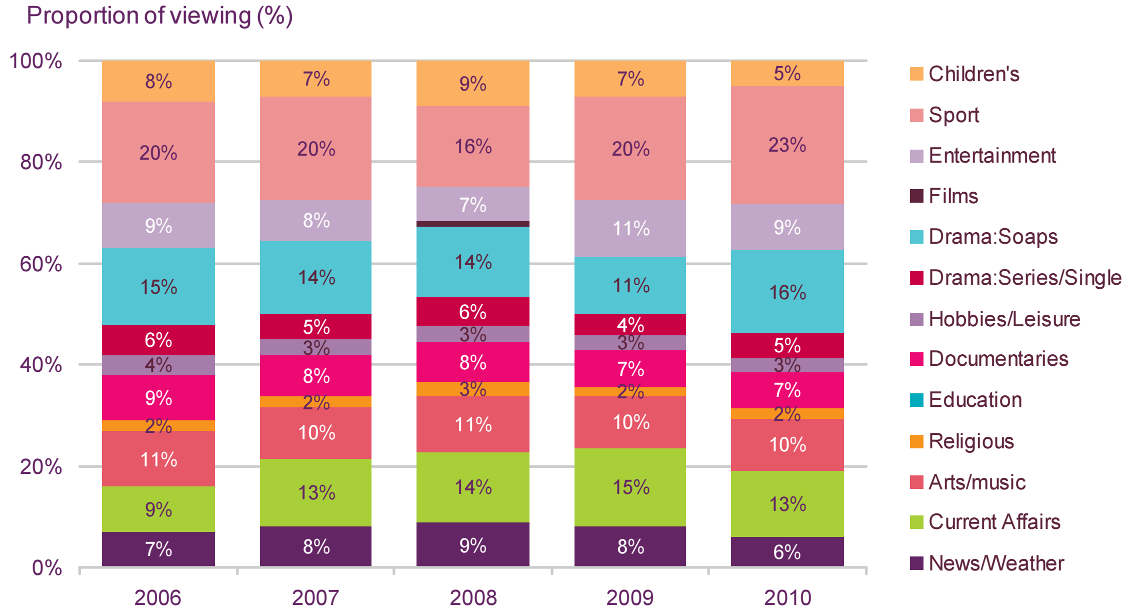
4.19 In 2010, S4C's share of all viewing was 1.3% and its share of peak-time viewing was 1.9%.

Figure 4.2 - Share of viewing in Wales, all viewers, all hours and peak time, 2006 – 2010

	Share (%)	
	All Hours (0600-3000)	**Peak Time (1800-2230)**
2006	3.6%	3.3%
2007	3.0%	2.9%
2008	2.7%	2.9%
2009	2.2%	2.6%
2010 *	1.3%	1.9%

4.20 Looking at the proportion of viewing of different genres on S4C, Drama (including soaps, series and single dramas) (21%), Sport (23%) and Current Affairs (13%) were the most-watched genres.

Figure 4.3 - Proportion of viewing of genres on S4C, 2010



Source: S4C/BARB/Infosys (BARB). S4C Region, All Individuals.

Independent Producers

4.21 The creation of S4C in the early 1980s required a significant Welsh language programme supply beyond that provided by the BBC and HTV (ITV). The independent production sector grew significantly in Wales to meet this demand during the 80s and 90s.

4.22 As S4C is a publisher broadcaster, the majority of its programmes are sourced from a range of independent producers based primarily in Wales. Furthermore, the requirement for English language programming for Wales, both within BBC Wales and HTV (later ITV) also increased significantly, providing new opportunities for independent producers in English.

4.23 **Tinopolis** is one of the UK's largest media producers. The Llanelli-based company and its subsidiaries are responsible for over 1600 hours of drama, factual, sports and children's programming each year for more than 200 broadcasters worldwide.

4.24 **Boomerang** and its subsidiaries produce entertainment, factual, sport, music, drama and children's programmes for television, radio and the web. Boomerang has produced programmes for S4C's children's output and produces live outside broadcast multi-platform coverage from some of Wales' leading events including the Royal Welsh Agricultural Show and the Urdd Eisteddfod. Boomerang also produces approximately 200 hours of radio programmes a year, supplying BBC Radio Cymru and BBC Radio Wales.

4.25 **Green Bay** is an award-winning media production company based in Cardiff. It produces high-quality programming across a wide range of genres, including documentary, specialist factual, arts, features and factual entertainment. Green Bay produces programmes for the BBC, S4C, Channel 4, National Geographic, the History Channel and other major UK and international broadcasters.

4.26 **Cwmni Da** is one of Wales' most well respected and established independent production companies. The company's national and international output includes, factual, children's, comedy, entertainment, drama, lifestyle, events and sport. A major producer for S4C, Cwmni Da also makes programmes for BBC Wales and ITV Wales.

4.27 **Rondo Media** is an independent production company with permanent offices in Cardiff, Caernarfon and Menai Bridge. The company was formed in 2008 when two of Wales' most experienced independent companies – Ffilmiau'r Nant and Opus TF - merged to create a new multi-genre broadcasting company. Rondo Media produces music, sport, drama and features for television as well as multi platform interactive content.

4.28 **Telesgop** is a multimedia production company which produces content for TV, Radio, DVDs, the Internet, and Events/Training courses. The company has expertise in producing science, ecology, rural affairs and contemporary documentary programming for broadcasters including the BBC, S4C, Animal Planet and the Discovery Channel.

4.29 **Avanti Media** produces a range of documentaries, music, children's and entertainment programmes. It is a major producer for S4C.

4.30 **Dinamo Productions** is the Treforest-based creator of the award winning Rastamouse. It produces high quality 2D and 3D Digital Animation and Visual Effects for television (including BBC CBeebies and S4C), film and the web.

Section 5

The Media Landscape in Context – Our Reviews of Public Service Broadcasting

Our First Review of Public Service Broadcasting

5.1 Section 264 of the Communications Act requires us to review every five years, the extent to which the public service broadcasters have fulfilled the purposes of PSB in the United Kingdom with a view to maintaining and strengthening the quality of PSB provision in the UK. We concluded our first review on 8 February 2005, followed by a final statement on programming for the nations and regions, published in June 2005.

5.2 Our first PSB Review concluded that there was continued demand for PSB but that the existing model of ensuring it is provided by commercially funded channels would not survive the transition to a wholly multi-channel world unchanged.

5.3 We stated that regional news was the most important element of regional provision for audiences in the Nations as well as in the English regions. We also concluded that competition in the provision of PSB programming was important in order to maintain high quality; and that an isolated BBC, as the sole or main PSB provider would not ultimately serve the interests of viewers who value plurality of provision.

5.4 With respect to non-news regional programming, we concluded that the needs of the devolved nations of the UK are distinct from those of the English regions, for three reasons:

- The need for broadcasting in the UK to reflect the reality of devolved social, cultural and political institutions.
- The closer relationship, in general, between TV regions and real cultural identities in the Nations than in the English regions; and
- The findings of our audience research on this issue, which on balance suggested that viewers in the devolved nations showed greater interest in dedicated provision for their Nation than viewers in England showed for their respective regions.

5.5 The Review concluded that there was a continued requirement for programming that reflects the distinct identities, cultures, histories and interests of Wales. It was noted that this requirement was not likely to be met by UK-wide programming alone, nor by reducing minimum requirements on ITV1 in the Nations in line with our decisions for the English regions.

5.6 However, it was recognised that with the approach of digital switchover, the surplus value of the Channel 3 broadcasters' analogue licences (after taking PSB obligations into account) would diminish. Eventually the surplus value would reach zero, at which point it would be impossible to sustain the same level of PSB.

5.7 After the first PSB Review concluded in early 2005, the media landscape evolved rapidly. Viewer adoption of digital technology grew significantly, the combined share of the five terrestrial public service channels continued to fall, especially in children's programmes; and television advertising expenditure fell. We announced in May 2007 that we would be bringing forward our second Review of Public Service Broadcasting.

Our Second Review of Public Service Broadcasting

5.8 The comprehensive research which was undertaken in our second review of Public Service Broadcasting, completed in 2009, showed the importance which audiences place on the continued availability of high quality, original UK content that meets public service purposes, from a range of providers.

5.9 However, we acknowledged the significant changes to the broadcasting environment brought about by the growth of multi-channel television and the increasing pressures this had placed on the public service broadcasters. In particular, we recognised a growing tension between the incentives on commercial PSB licence holders to sustain profitable business models while continuing to invest in a wide range of public service content.

5.10 We found that audiences in the nations, regions and localities of the UK see the provision of news and information about where they live as among the most important of all areas of public service content but that the current model was unable to deliver the desired level of plurality in programming for the nations in future. Given this, and in light of the support from most respondents to a continuing role for commercial networks within the public service framework, we advocated a new approach that would see Channel 3 and Channel 5 maintaining modest but important public service commitments.

5.11 Our research showed that more than 90% of people in the devolved nations believe that "TV is an important source of news about their nation" and 88% thought it was "important that the main TV channels provide nations and regions news". When people were asked specifically whether it was important for ITV 1 as well as the BBC to provide nations and regions news programmes, there were high levels of agreement from audiences in the devolved nations.

5.12 Furthermore, deliberative research undertaken for our second review found that people in the devolved nations favour a PSB model that retains a clear role for the Channel 3 licensee. Guaranteeing the continuation of ITV Wales in its current form was important for most participants in Wales. Channel 3 has a symbolic value in the devolved nations and is seen to represent national identity in ways which other TV channels do not.

Section 6

Models for the Devolved Nations

6.1 In our second review of Public Service Broadcasting, we analysed a number of media models for the nations set against a background of devolution and the nations' differing political, public service and cultural agendas.

6.2 We agree that the new politics which devolution has brought about requires a vibrant, widely accessible media to report and sustain it. Welsh audiences ought to have a choice of high quality original news and non-news programming relevant to their lives and the area in which they live, provided by multiple voices.

6.3 In response to our consultation on the second PSB review, there was a general recognition that maintaining plurality in news coverage was particularly important, given the relatively sparse news provision from Wales' indigenous print media.

6.4 We have recognised that there is a heightened role of public service content in the nations and that there is a need to sustain choice of providers for citizens and their new democratic institutions.

6.5 In our second review, we argued that due to the value which audiences in the nations attribute to plurality of provision, a BBC-only model was unlikely to be sufficient. This argument holds particular resonance in Wales, with its separate political arrangements in devolved areas of public policy and its distinctive cultural circumstances.

6.6 Audience research suggested three specific requirements for the nations:-

- Sufficient content in the devolved nations to address their distinct political and cultural needs (including sufficient plurality); and similarly at regional and local levels.
- Portrayal of the different areas and communities of the UK in UK-wide programming.
- An appropriate level of output in indigenous languages.

6.7 At present, Wales shares a cross-border licence with the West of England. It is felt by many that a single licence for Wales would bring greater accountability and that it would allow licence arrangements to better reflect Wales' specific needs and underpin ITV's public service obligations towards Wales. We accept the argument for creating a separate licence for Wales.

6.8 Beyond news, the primary concern for people in Wales was the importance of ensuring that English language non-news programming for Wales which reflects the life and culture of Wales is protected and is delivered by a range of providers as a counterbalance to the service provided by the BBC.

6.9 In 2008, The Welsh Government's Broadcasting Advisory Group proposed the creation of a Wales Media Commission which would invite competitive tenders for a small number of substantial medium-term contracts of between three and four years duration. It would be allocated spectrum which would provide the option of creating an English language television channel for Wales. It was estimated that it would cost around £50 million of funding annually. The National Assembly's Broadcasting Sub-

Committee also previously recommended that a public service content fund for Wales should be established.

6.10 Our approach for the funding of nations news was closely aligned to this funding agency model with a focus on ITV Wales as a medium for delivery.

6.11 While the BBC is highly valued, stakeholders and audiences want alternatives to it, and do not agree on how to achieve this. Virtually nobody favoured it becoming the only provider of public service content. There are compelling arguments and strong audience support for alternative public service provision to complement the BBC.

6.12 However, the model for provision of public service content beyond the BBC now faces its greatest challenge – how to harness the opportunities opened up by digital media while responding to growing pressures on funding, and reconciling the divergent needs of different audiences.

6.13 Viewers have access to a wider range of content than ever before, on digital TV and online. Multichannel broadcasters now make a significant contribution to public service content, particularly in sport, entertainment, archive and acquired programming, and in one case, news. However, they provide very little original programming in the genres under most pressure on commercial public service channels – current affairs, nations and regions programming, challenging UK drama, UK scripted comedy, and UK drama and factual programming for children. This is unlikely to change as provision on the commercial PSBs declines; because most multi-channels do not reach the audiences required to justify large and risky investments in these areas and will face increasing economic pressure.

6.14 In digital media, the potential exists for new commercial provision of content which meets public service purposes, especially online. However, our assessment showed that online business models remain highly uncertain, especially for content already under pressure on commercial television. Moreover, it is unlikely that such content will have the reach and impact of television for some time to come.

6.15 In our second review of Public Service Broadcasting, we proposed three models for the digital world, all of which would require significant change to the existing legislative framework.

An enhanced Evolution model

6.16 In this model, the main commercial PSBs would retain obligations. ITV1 could become a network of nations-based licences with obligations for UK origination, UK and international news, and news for the devolved nations and the English regions, for which replacement funding would likely to be required. Channel 4 would have an extended remit to innovate and provide distinctive public service content across platforms, with additional funding. Channel Five's role would focus on UK origination, in particular UK children's programming, and news.

A refined BBC/Channel 4 model

6.17 In this model, the BBC and Channel 4 would be the main recipients of public funding and regulatory assets. Channel 3 and Channel 5's licences would be auctioned or the spectrum rights and other regulatory assets transferred directly to Channel 4 and the BBC to enhance their public service propositions. Competition for new funding could be introduced for nations, regions and potentially local news. Channel 3 licensees would have no ongoing public service benefits or obligations, but could compete for funding to provide nations and regions news, alongside others. Five would also lose public service status but could similarly bid.

A refined competitive funding model

6.18 In this model, the BBC would remain as the cornerstone of provision, but additional funding would be opened up to a wider pool of providers. Channel 4 could retain its PSB status along with its existing regulatory assets, but be required to bid for any additional funds alongside other providers. Current Channel 3 licensees and Five could also bid for funding, alongside others, if they wished to continue to contribute.

Summary

6.19 If the costs of provision for Channel 3 licensees outweigh the benefits of PSB status, it is likely that replacement funding will be needed for nations and regions services, particularly news. In our second review of PSB, we concluded that the options were:

- Do nothing, and allow provision to decline over time, against clear audience preferences;
- Provide new public funding for Channel 3 licensees in the nations and regions;
- Introduce competitive funding for services in the nations and regions to enable other providers to bid, potentially enabling the creation of cross-media services in Scotland, Wales and Northern Ireland;
- Fund the creation of dedicated channels for the devolved nations, such as that proposed by the creation of a Wales Media Commission.

6.20 Our provisional conclusions from our Second Review were:

- the BBC should remain the cornerstone of public service content, and its core programme and services budget should be secure;
- audiences should have a choice of providers in most areas of public service content, which the market alone will not provide.
- public service remits should be delivered across digital platforms in future, although linear TV remains essential;
- the provision of content for the devolved nations – in particular dedicated news – remains an essential requirement for any future model;
- institutional and competitive funding could both play important complementary roles in the future model for public service content;
- Channel 4 should have a significant public service role in the digital age, building on its current contribution. It needs an economic model and funding mechanism to support this;
- between now and 2014, ITV1 and Five should retain important roles focused on UK origination and news, and (for ITV1) the nations and regions and (for Five) children's content.

6.21 Also, at the time of our Second Review, ITV plc proposed a series of areas where they wanted to see a reduction in the obligations on ITV1. We considered these carefully and sought to align obligations with the continuing value of the ITV1 licences before the end of switchover.

6.22 Taken together, these proposals sought to ensure audiences' priorities of UK programmes, UK news and nations and regions news are served. To do that, we proposed a substantial reduction in the costs of PSB obligations in other areas, consistent with existing legislation.

6.23 In Wales, as a condition of retaining nations' news on ITV Wales, we reduced the minimum requirement for news minutage from 5 hours 20 minutes to 4 hours, and reduced minimum requirements for nations and regions non-news programming from 3 hours to 1.5 hours.

6.24 We also proposed:

- to reduce ITV1's quotas for out-of-London production from 50% to 35%, in the context of new commitments to such production from the BBC and Channel 4;

- to maintain ITV1's quotas for original UK productions, independent productions and national and international news.

- to raise Channel 4's out-of-London quota from 30% to 35% from 2010, and to introduce a new quota for Channel 4's productions from the devolved nations of 3% which took effect at the beginning of 2010.

Section 7

Recent Market Trends & Developments

7.1 Since our second Review of Public Service Broadcasting, there have been a number of developments that could affect the ability of the commercial PSBs in particular (ITV and Channel 5) to deliver meaningful public service commitments in Wales over the next licence period. Among other things:

- structural changes including the fragmentation of TV audiences and growth in on-demand/ online viewing.
- the increased likelihood that IPTV will compete with broadcast services;
- the focus of government broadcasting policy on the creation of a strong local media sector which has the potential to play a significant role in the delivery of public service purposes;
- the prospect of an in depth examination of public service broadcasting in the next Communications Bill;

7.2 However, the UK still has a strong mixed broadcasting ecology based on a range of different business models and ownership structures. Taken as a whole the sector has delivered several positive outcomes:

- Plurality across a range of key public service genres, including news provision at a UK, National and regional level;
- High levels of investment in a range of content that appeals to audiences;
- Innovation in technology and distribution which has served to enhance consumer choice; and
- Creation of intellectual property that continues to create value for the UK economy from international markets.

7.3 In spite of this broadly positive picture, continuing evolution in the market for audiovisual content has created challenges to the traditional PSB model to which the networks have had to respond.

7.4 Prior to the launch of multichannel television, the viewing options available to UK consumers were controlled by the PSBs. However, the launch of analogue and then digital cable and satellite services, coupled with further technological innovations and the growth of the DTT platform, have increased viewer choice and competition between providers for viewers' time and attention. Today, 60% of households in Wales pay for additional TV services. Digital video recorders which enable viewers both to record and store television programmes could be found in 46% of UK households, while 22% in the UK have watched programmes made available "on demand" by their television service provider.

7.5 Whilst the steady growth in pay-TV has shown it to be comparatively unaffected by macroeconomic conditions, TV advertising revenue has suffered from the cyclical nature of both public and private sector advertising budgets. At the same time the internet's share of total UK advertising is scheduled to overtake that of television this year.

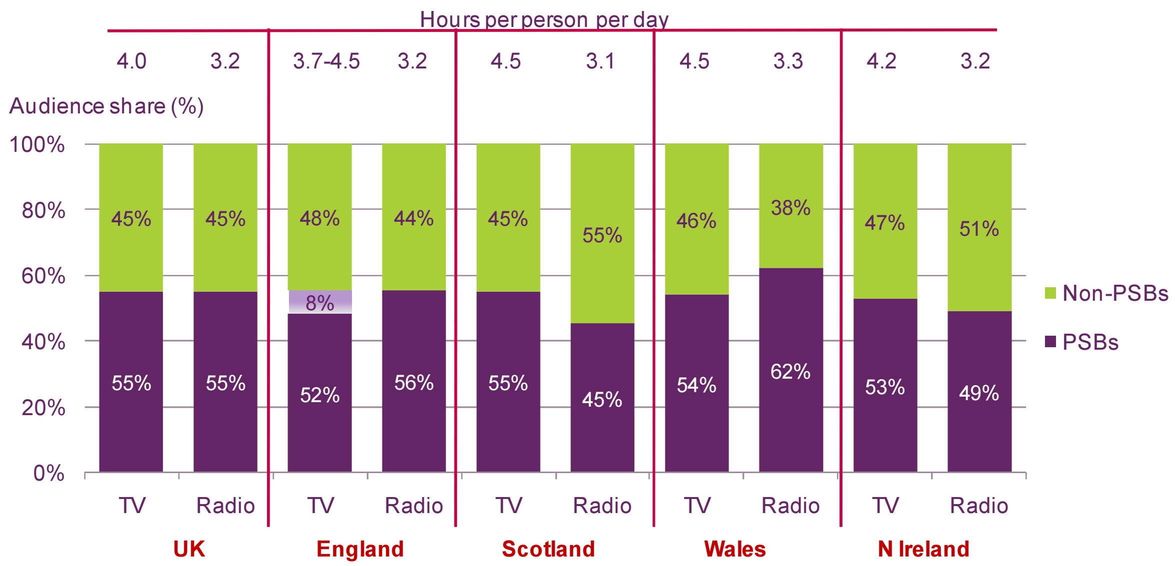
7.6 Whilst the PSBs have as a group continued to fund the vast majority of UK content, with the growing maturity of the digital television market there are signs of increasing investment in original content by cable and satellite operators.

7.7 Broadcasters reliant on advertising revenue have increasingly looked for opportunities to diversify their revenue streams. Changes in technology and methods of distribution have led to a range of new models through which broadcasters are able to generate income, including video on demand services, sponsorship and teleshopping. However, these remain small relative to the main sources of industry revenue.

7.8 It is possible that the commercial networks' reliance on advertising revenue could threaten the sustainability of the public service licences in the years to come. These market trends suggest that there will be a continuing need for the PSB system to adapt to changes in content consumption and technology, particularly as broadcasters develop strategies to compensate for declining advertising revenue.

7.9 Having said that, the demand for linear television – including public service content – has remained resilient despite the pace of technological change and growth in viewer choice. Despite increasing choice in the forms of content distribution available for consumers to select, scheduled linear viewing on television sets has remained resilient: live TV broadcasts continue to account for more than 80% of the audiovisual content which UK viewers consume. Furthermore, there is no indication that TV viewing appetites are declining. In Wales, TV viewing per head is highest of all the UK's nations (averaging 4.5 hours per day in 2010).

Figure 7.1 – Hours of Daily Viewing of Television & Radio



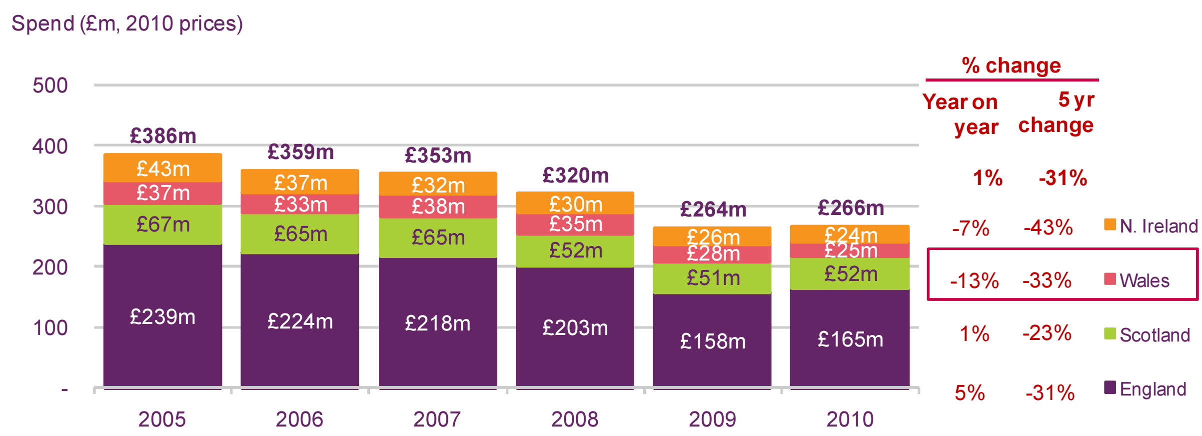
7.10 The PSBs remain the providers of the most popular television services, accounting for 2.5 hours (or 63%) of average daily viewing. The online catch-up services run by the PSBs, including the BBC iPlayer and ITV Player, account for the large majority of online viewing. PSBs also continue as a group to fund the vast majority of UK content – around 90% of total investment in UK originated programming – even as their absolute levels of spend have declined. Investment in first run original programming on the main PSB channels, for example, has fallen from a peak of

£2.7 billion in 2004, to £2.3 billion as a result of lower advertising revenues and tougher licence fee settlements.

7.11 Spend on nations and regions output by the BBC and Channel 3 combined fell by £93 million or 26%, from £359 million in 2006 to £266 million in 2010. Channel 3 spend declined by 43% to £85 million; for the BBC it fell by £30 million or 14% over the same period to £181 million.

7.12 A total of £25 million was spent on English-language content for viewers in Wales, down 13% on 2009. This represents the largest year-on-year reduction across the four nations and over five years, overall spending was down by 33%, compared to a UK-wide reduction of 31%.

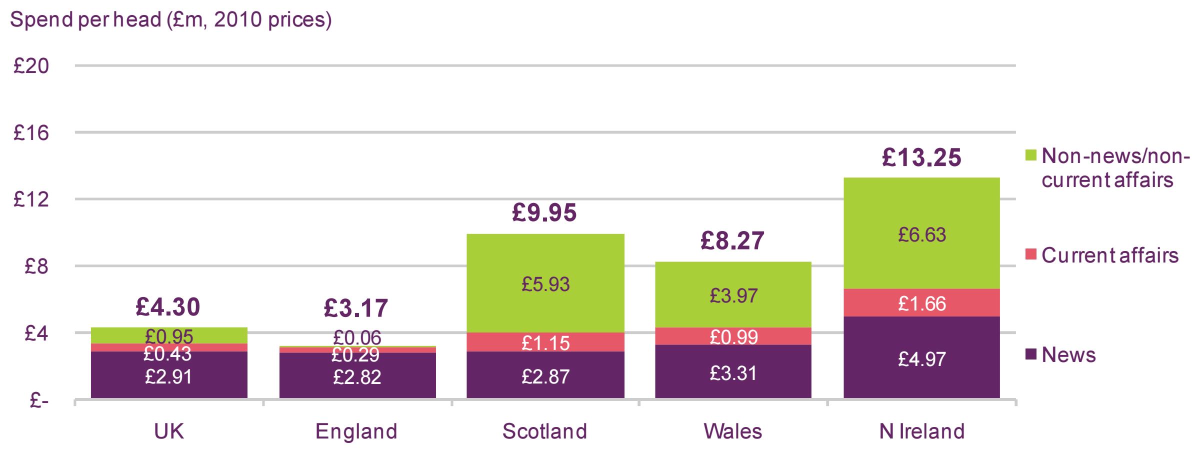
Figure 7.2 - Spend on originated nations and regions output by the BBC, ITV1/STV/UTV



7.13 Compared to 2009, Wales' expenditure on news saw the most significant increase across the nations, at 22%. Conversely, year on year spending on non-news/non-current affairs in Wales is down by 32%.

7.14 Expenditure per head of population in Wales is down 13%; from £9.46 in 2009 to £8.27 in 2010, the largest reduction among the four nations. In Wales, spend per head on non-news accounted for 48% of total spend in 2010, news accounted for a further 40% and current affairs made up the final 12%.

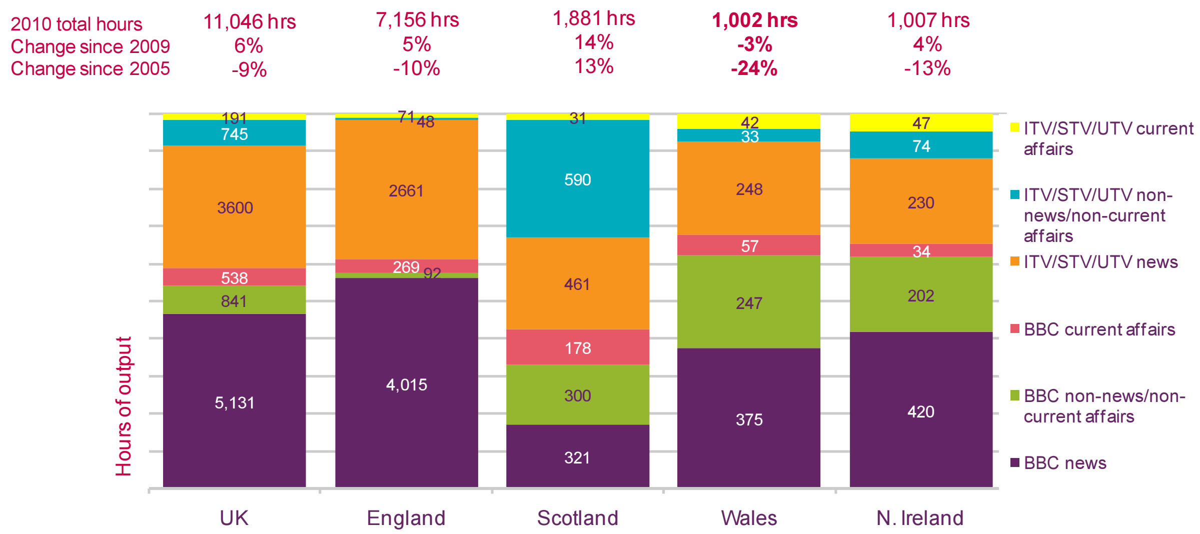
Figure 7.3 - Spend per head made by the BBC and ITV1 in national and regional output



Hours of output of content for viewers

7.15 The BBC and ITV1/STV/UTV produced a total of 11,046 hours of programmes for the English regions, Scotland, Wales and Northern Ireland in 2010, up by 6% from 10,439 hours in 2009. The number of hours produced specifically for viewers in Wales in 2010 was down by 3% from 1,036 hours in 2009, compared to a 24% decline since 2005. Hours of current affairs output from ITV1 Wales and the BBC was up year on year by 8% and 10% respectively.

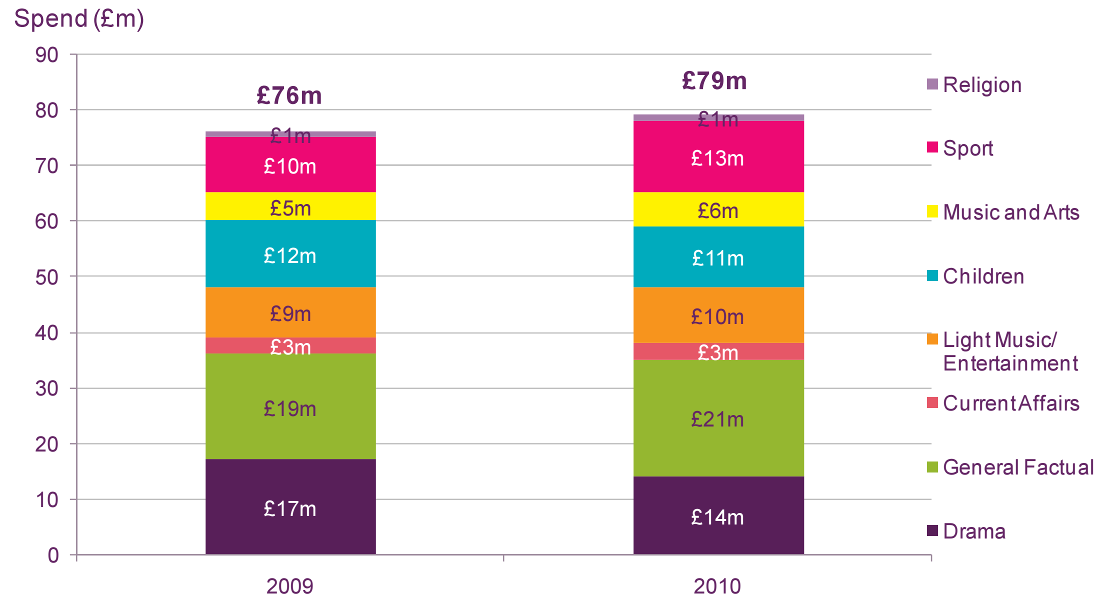
Figure 7.4 - Hours of regionalised output by genre and broadcaster: 2010



Investment and hours of Welsh-language output

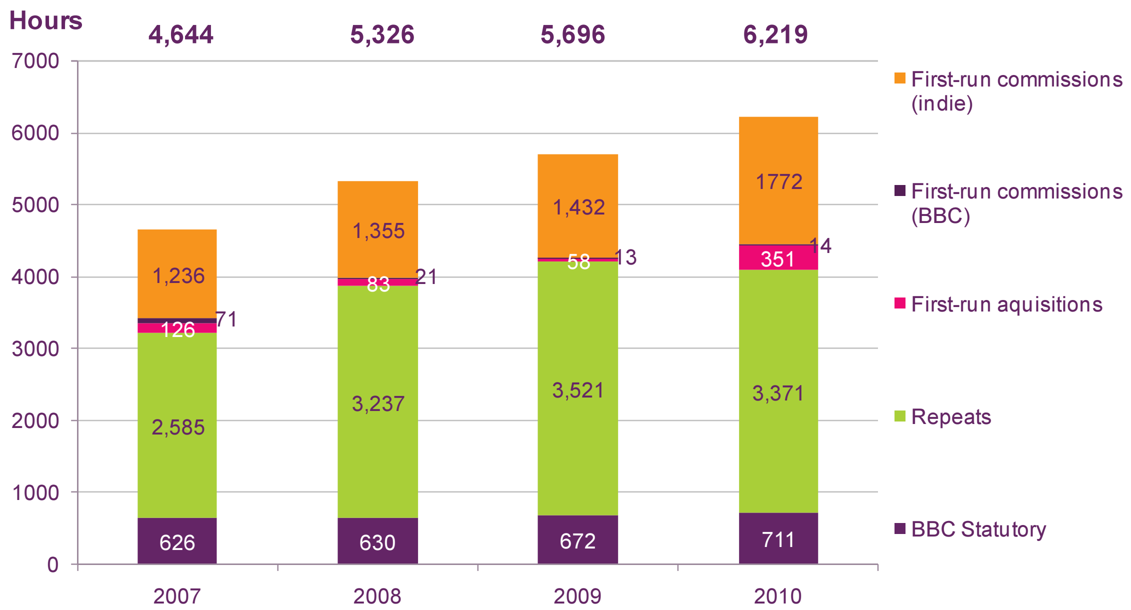
7.16 S4C spent a total of £79m on first-run programming in 2010, a 3% increase in nominal terms on 2009. All genre categories apart from drama and children's programming saw year-on-year increases in spending. Similarly, with the exception of drama, all categories also saw annual increases in the number of first-run hours broadcast, with total first-runs rising by nearly a quarter (24%) between 2009 and 2010 to 1,786 hours.

Figure 7.5 - Spend by S4C on first-run Welsh-language programming



7.17 The total number of hours broadcast by S4C in 2010 increased by 9% year on year, bringing the total to 6,219 hours. Repeats made up the majority of the channel's output in 2010 although repeated hours were down by 4% from 2009. The number of first-run acquisitions saw a six-fold increase (from a small base) bringing the 2010 total to 351 hours, the biggest relative increase across the categories.

Figure 7.6 - Type of Welsh-language output on S4C, by hours



Channel 3 & Channel 5 Licence Renewal

7.18 Each of the fifteen regional Channel 3 licences, the national Channel 3 breakfast licence and the Channel 5 licence are due to expire on 31 December 2014.

7.19 Although the Act permits those licence holders to apply to renew their licences for a new ten year period, before we make any decisions about renewal, we must submit a report to the Secretary of State for Culture, Media & Sport which assesses the capacity of the existing Channel 3 and Channel 5 licence holders to:

"contribute, in the next licensing period, to the fulfilment of the purposes of public service television broadcasting in the United Kingdom at a cost to the licence holders that is commercially sustainable."

7.20 On 1st July 2011, the Department for Culture Media & Sport asked us to provide the Secretary of State with:

- advice about the options for relicensing Channel 3 and Channel 5; and
- an assessment of the benefits and implications of each of those options.

7.21 On 2nd September 2011, we published an interim report. We will submit our statutory report to the UK Government before the end of June 2012.

7.22 Under the Act, the Secretary of State is able to:

- Instruct us to proceed with the renewal process which may result in ten year licences being granted to the existing licensees from 1 January 2015;
- To block licence renewal, leaving us to award vacant licences, resulting in ten year licences to new licensees from 1 January 2015; or
- To extend the existing licences for a period of his choosing (at any time).

7.23 The options open to the Secretary of State regarding licence renewal will essentially offer a choice between stability and disruption to the current forms of public service broadcasting.

7.24 It is not yet clear whether the existing regulatory settlement with the commercial PSBs will be sustainable throughout the next licence period. In particular, it is uncertain whether the regulatory enforcement mechanisms currently in place would be sufficient to prevent licensees from seeking to pare back delivery of public service content in the future in response to unfavourable market conditions.

Measuring Plurality across Media

7.25 The Committee may wish to note that we have been requested by the Secretary of State for Culture, Media and Sport to provide advice on media plurality[1]. The advice will be provided to the Secretary of State and the Leveson Inquiry by June 2012.

7.26 The questions we have been asked are:

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[1] http://www.culture.gov.uk/news/news_stories/8431.aspx

- What are the options for measuring media plurality across platforms? What do you recommend is the best approach?
- Is it practical or advisable to set absolute limits on news market share?
- What could trigger a review of plurality in the absence of a merger, how might this be monitored and by whom?
- Could or should a framework for measuring levels of plurality include websites and if so which ones?
- Whether or how it should include the BBC?

7.27 By way of background, plurality regulation was put in place because "plurality is important for a healthy and informed democratic society"[2]. The underlying principle is that it would be dangerous for any person to control too much of the media because of his or her ability to influence opinions and set the political agenda.

7.28 Currently, an assessment of plurality may be triggered by a "public interest" intervention in a merger between media enterprises. In addition:

7.29 National cross media ownership rules are in place regulating the cross ownership of a Channel 3 licence and one or more national newspapers with an aggregate market share of more than 20%; there are restrictions on holding broadcast licences to prevent or limit control of television and radio by certain owners whose influence might cause concern; and there are also rules which require Channel 3's news provider to be independent of the BBC, not under the control of political or religious bodies and to be suitably well funded.

7.30 Other rules affecting plurality in the media in the UK include provisions in the Broadcasting Code concerning both accuracy and impartiality. These act alongside media ownership rules by ensuring that television and radio news must be reported with due accuracy and also presented with due impartiality. In addition, the public service broadcasting framework acts to ensure certain levels of content provision, including news, by the BBC and other public service broadcasting providers.

7.31 We will take into account this regulatory context in providing our answers to the Secretary of State's questions.

Welsh Government – Creative Industries

7.32 In July 2009, the National Assembly for Wales' Communities and Culture Committee called for an independent review of the Welsh Government's activities in the field of the creative industries.

7.33 Professor Ian Hargreaves, Chair of Digital Economy at the University of Cardiff was asked by the then Deputy First Minister, Ieuan Wyn Jones AM, to undertake this review of creative industries in Wales.

7.34 Key recommendations in Professor Hargreaves' "Heart of Digital Wales" Review included:

[2] Lord McIntosh of Haringey (Parliamentary Under Secretary, DCMS) 2 July 2003, Hansard

- The creation of a Creative Industries Fund which should be accessible to all digital media industries: film; television; music; and interactive media.

- The establishment of a Digital Wales Board, run by a Director for Digital Wales and chaired by a suitably experienced person from outside Government, to provide the over-arching framework.

- The creation of a new Creative Industries Strategic Hub, led by a Head of Creative Industries and supported by a Creative Industries Board, also chaired by an external appointee with expertise in the sector and joined by a small number of additional external members.

- S4C, the BBC and Channel 4 should deliver an annual audit of their economic impact on Wales and an assessment of economic issues looking at least one year ahead.

- The Welsh Government should ensure that all other UK public service broadcasters, including Channel 4, define and fully discharge their responsibilities towards Wales.

Implementation – Economic Renewal: A New Direction & Delivering a Digital Wales

7.35 In July 2010, the Welsh Government published its economic strategy - *Economic Renewal: A New Direction* – which incorporated many of Professor Hargreaves' recommendations.

7.36 In September 2010, the Welsh Government created a new Creative Industries Strategic Hub and appointed a Head of Creative Industries.

7.37 In October 2010, the Welsh Government mapped all 13 creative industries sub-sectors and established the Creative Industries Board under the chairmanship of Ron Jones, the Executive Chairman of Tinopolis.

7.38 In November 2010, the Digital Wales Advisory Board was launched under the chairmanship of Simon Gibson OBE to advise Ministers on key aspects of the digital agenda - including infrastructure, skills, competitiveness, public service delivery, as well as digital inclusion.

7.39 In December 2010, the Welsh Government's framework for *Delivering a Digital Wales* was published to lead to the *"development of an overarching strategic framework for the creative industries sector."*

7.40 In April 2011, the Welsh Government established a new Creative Industries Fund to support a wider base of creative businesses.

UK Government - Local TV

7.41 The UK Government has made clear that establishing Local TV in the UK is a policy priority and in 2010, set up the Shott enquiry to examine what conditions might be necessary to make Local TV commercially viable.

7.42 Following detailed discussions with the Department for Culture, Media and Sport, Nicholas Shott and his team, we set out the technical options for introducing local television services across the UK in September 2010.

7.43 In July 2011, the UK Government published a new framework for local television which set out proposals to create a number of local television service licences supported by a single multiplex provider. That document explains in detail the nature of the proposed framework, the legislative provisions which the UK Government proposes to implement and how the licensing process will be developed following publication of a range of potential local television locations.

7.44 We have provided information on the locations where local broadcast services might be technically possible together with the numbers of households that we predict may be able to receive those services, and maps showing indicative coverage.

7.45 It is important to note that we have not yet been granted the necessary powers to conduct a local TV licensing process. The UK Government's framework document suggested that such legislation would be laid in due course, but until such time, we are acting in a technical advisory capacity only.

7.46 We identified 6 locations in Wales:-

- Bangor
- Cardiff (to include Bridgend/Newport)
- Carmarthen
- Haverfordwest
- Mold (to include Denbigh/Ruthin)
- Swansea (to include Llanelli)

7.47 This is not a list of locations where local TV licences will definitely be advertised, nor does it request expressions of interest or applications for local TV services. It is merely a technical assessment of where services might be possible. Should legislation be laid which grants us the powers to conduct a local TV licensing process, we would expect to consult on our approach prior to inviting applications for any such services.

Section 8

The Current Media Landscape in Wales – Compliance with PSB Regulatory Obligations

Our Regulatory Role

8.1 We must ensure that the output of television broadcasters is of high quality and that a broad range of programmes is provided, which are of interest to different types of audiences. Television broadcasters have to comply with a number of regulations originating from UK or European legislation and, (with the exception of BBC and S4C's public services) must also comply with the terms of their licences to broadcast, which we issue.

8.2 The level of regulatory intervention which we are required to apply depends on the category of broadcaster. Public service broadcasters such as the Channel 3 (ITV) services, Channel 4 and Channel Five have remits set out in the Communications Act and we license and regulate these services along with other non-PSB commercial television services which broadcast to and from the United Kingdom.

8.3 As public service channels, and in return for specific benefits, the holders of the commercial Channel 3 and Channel 5 licences are subject to a number of licence conditions which are not placed on other commercial broadcasters. These additional obligations are designed to ensure that, in return for their special status, the Channel 3 and Channel 5 licence holders contribute to the purposes of public service broadcasting.

8.4 Among other things, the purposes of PSB set out in the Act are designed to secure the delivery of high quality programmes which meet the needs and interests of differing audiences, provide comprehensive and authoritative news coverage and reflect the lives of and concerns of different communities in the UK. In return for fulfilling obligations designed to secure these aims, the Channel 3 and Channel 5 licence holders receive a range of benefits including prominence on electronic programme guides and reserved capacity on multiplexes that enable them to broadcast to over 98.5% of the UK population.

8.5 We share regulation of the BBC with the BBC Trust and of S4C with the S4C Authority. Both the BBC Trust and the S4C Authority set targets for their services but they must consult and agree with us on particular commitments such as quotas for news and current affairs.

8.6 The Communications Act describes a range of obligations that are designed to ensure that certain types of programmes are produced and broadcast in sufficient quantity. The Act places a duty on us to agree quotas with the broadcasters and monitor compliance for certain types of programmes.

PSB Quotas and the Communications Act

8.7 The Act sets out a range of obligations applying to public service channels, and we set appropriate quotas to meet these obligations. When fixing the quotas, we take into account the individual remit of each channel and other relevant criteria.

8.8 A summary of the quotas applying to PSB channels is given below. These are applicable to the BBC, ITV1, Channel 4, Channel 5 and S4C.

- Independent productions – programmes made by companies that are independent of broadcasters.

- Original productions – programmes commissioned by broadcasters from in-house production resources or qualifying independent producers.

- Out-of-London productions – network programmes made in the UK outside the M25.

- Nations and regions programmes on Channel 3 and the BBC – made and shown in the nations and English regions.

- UK & International News and Current Affairs

Audiovisual Media Services (AVMS Directive)

8.9 All television broadcasters we license in the UK, including multichannel operators, are also subject to the obligations of the Audiovisual Media Services (AVMS) Directive. The AVMS Directive replaced the Television Without Frontiers (TVWF) Directive on 10 December 2007 and was transposed into UK legislation in December 2009. This requires that on each channel, the majority of programmes must be European (including from the UK) and at least 10% must be made by independents. Of these, the majority must have been made within the past five years. The European Commission publishes a report on compliance by all EU Member States every two years.

Figure 8.1 - Performance against European programming requirements, 2010

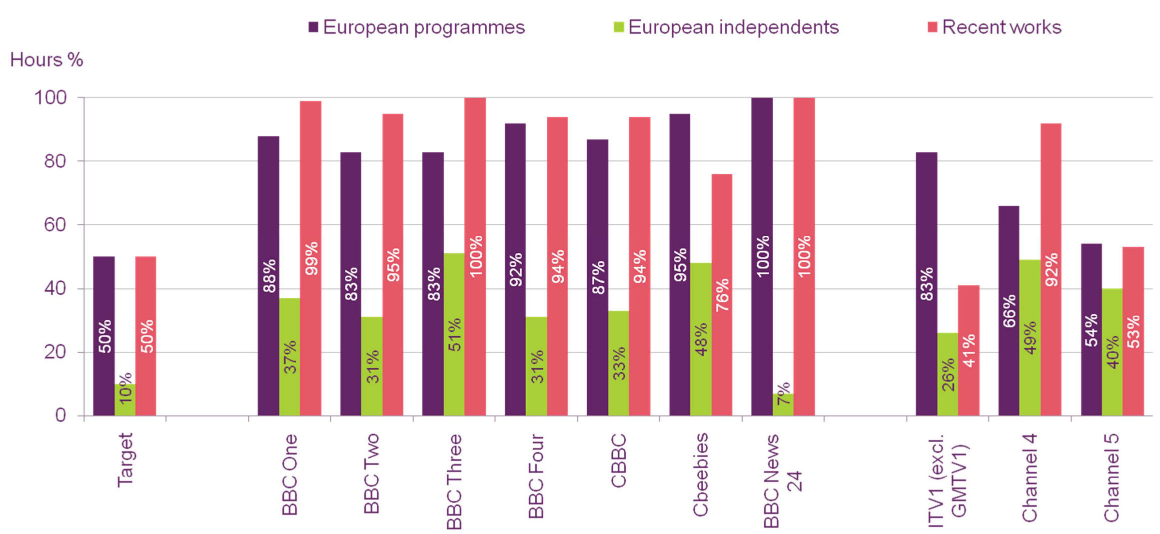
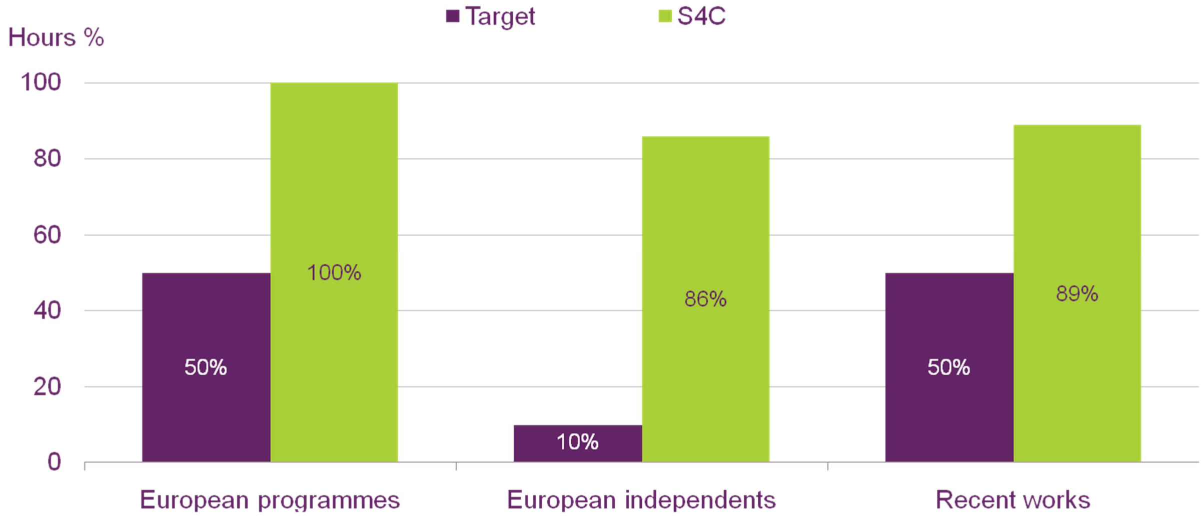


Figure 8.2 - S4C performance against European programming requirements, 2010



Television Access Services

8.10 Quotas setting minimum levels for subtitling, signing and audio-description for people with sensory impairments also apply to all PSB channels and to all other television services that achieve an average share over a 12 month period of 0.05% or more (subject to passing an affordability threshold and not facing insurmountable technical difficulties).

1. Qualifying Independent Productions

8.11 Section 277 of the Act requires us to set obligations on the licensed PSBs to ensure that not less than 25% of the total amount of qualifying programming is allocated to broadcasting a range and diversity of independent productions. In addition, they are obliged to draw up, maintain and comply with Codes of Practice governing the terms under which they commission programming from independent producers.

8.12 The restriction of the quota to ‘qualifying’ programming is an important one because the absolute level of the obligation decreases as more non-qualifying acquired programming is shown. Channel 5, like Channel 4, is predominantly a publisher broadcaster with a small in-house production unit.

8.13 In contrast, the Channel 3 licensees have traditionally contributed a large proportion of the network schedule. The repeated success in recent years of programming commissioned by Channel 3 from the independent sector has seen the proportion of qualifying programming increase, broadly in line with the BBC. However ITV plc’s strategic goal to develop its international production and distribution business may place increasing strain both on this obligation and the code of practice stipulation.

8.14 In 2010, 86% of commissioned programmes on Channel 4 and 81% on Five were made by independent production companies, while S4C achieved a figure of 99%. In 2010, the BBC achieved a figure of 36% across all its PSB channels with 33% on BBC 1 and 41% on BBC 2. ITV 1 achieved 39%.

Figure 8.3 - Qualifying hours commissioned from independent producers

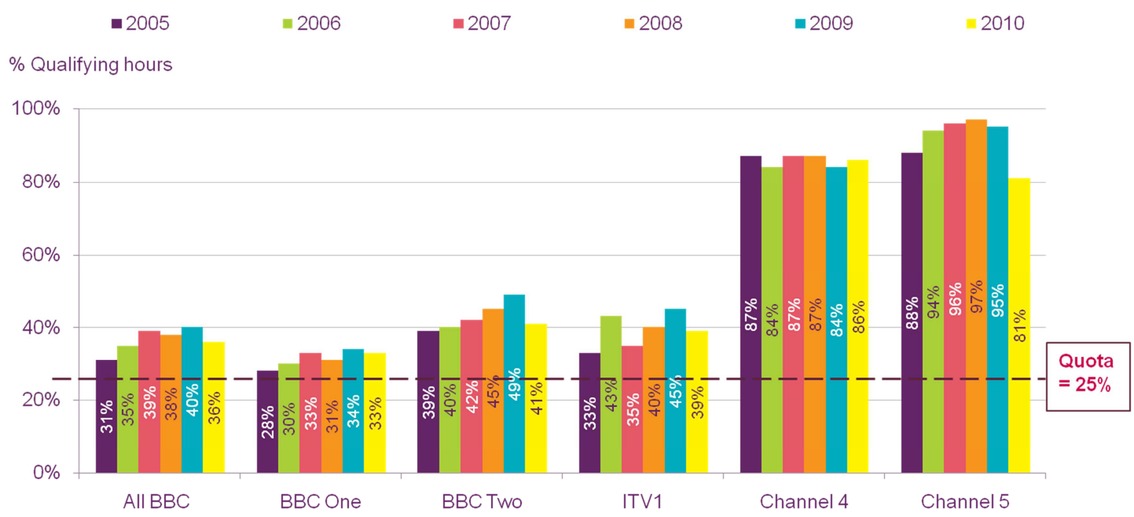
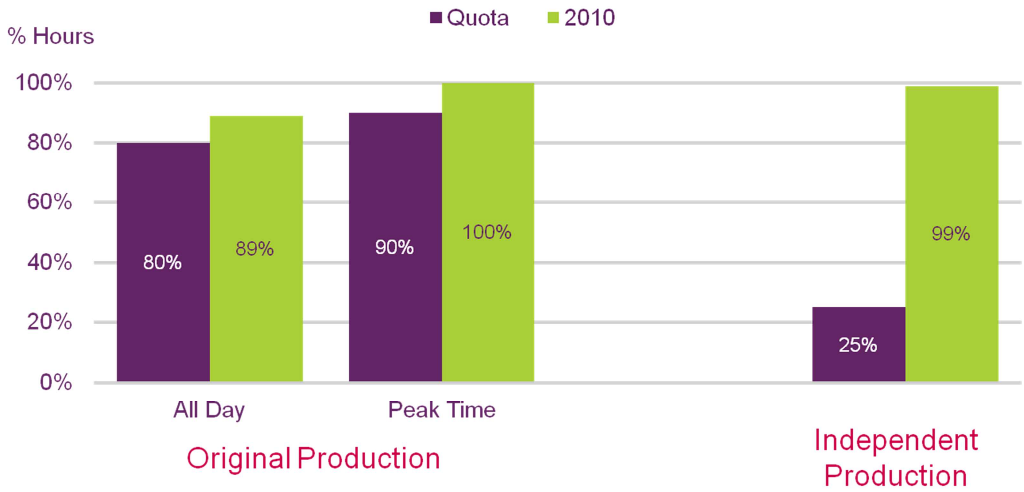


Figure 8.4 - S4C performance against original and independent production quotas



2. Original Productions

8.15 Section 278 of the Act requires us to set obligations on the commercial PSBs to show a suitable proportion of programming commissioned by or for them "with a view to [the programme's] first showing on television in the United Kingdom."

8.16 The quota aims both to promote investment in the UK creative economy and implicitly encourage (though not mandate) production of specific types of content which have traditionally been regarded as 'public service', such as UK drama, comedy and specialist factual programming including arts and documentaries. The quotas are also intended to ensure that the channels deliver programming across the schedule designed to appeal to a broad range of interests.

8.17 Viewers recognise these programmes as an important element of PSB purposes and characteristics.

8.18 The quotas are set at different levels for each public service broadcaster and designed to ensure that the majority of broadcasting time on PSB channels comprises programmes primarily from UK production sources rather than bought in from elsewhere. These are two quotas, one applying across the full broadcasting day and one applying to peak time. The majority of programmes by PSB channels are original productions (the definition includes repeats) and all channels met their quotas in 2010.

8.19 In 2010, the hours of first-run originations broadcast by the PSB channels stood at 618 hours per week, down from 627 hours in 2009. Among the five main PSB channels, just under half (47%) of the 42,618 total hours were first-run originations.

Figure 8.5 - Broadcasters' performance against original production quotas, all time

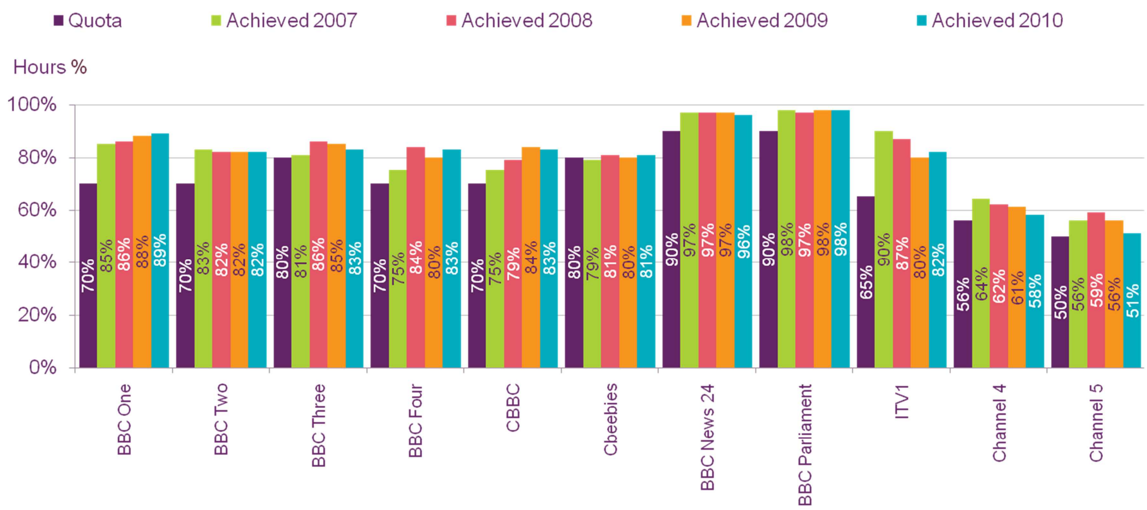


Figure 8.6 - Broadcasters' performance against original production quotas, peak-time

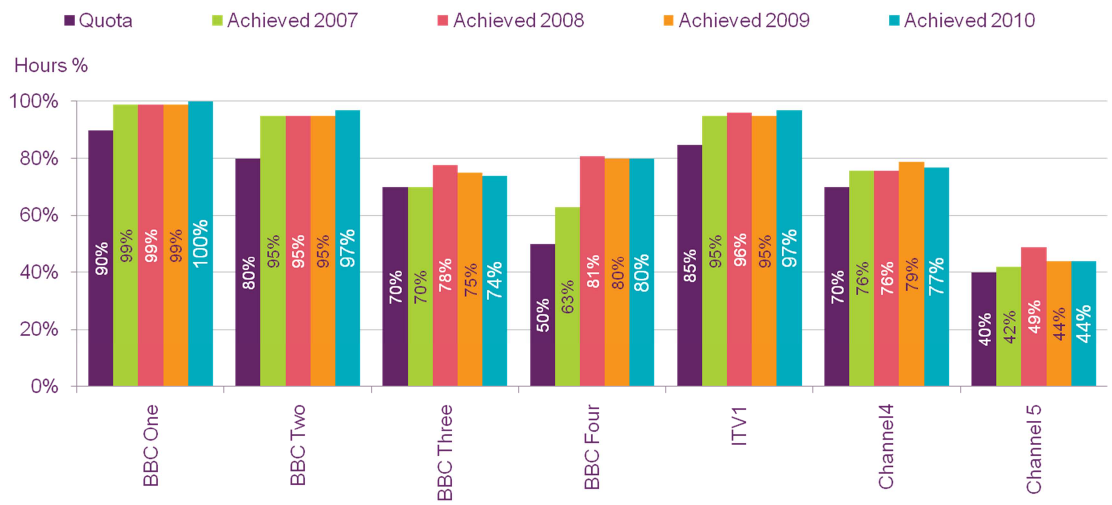
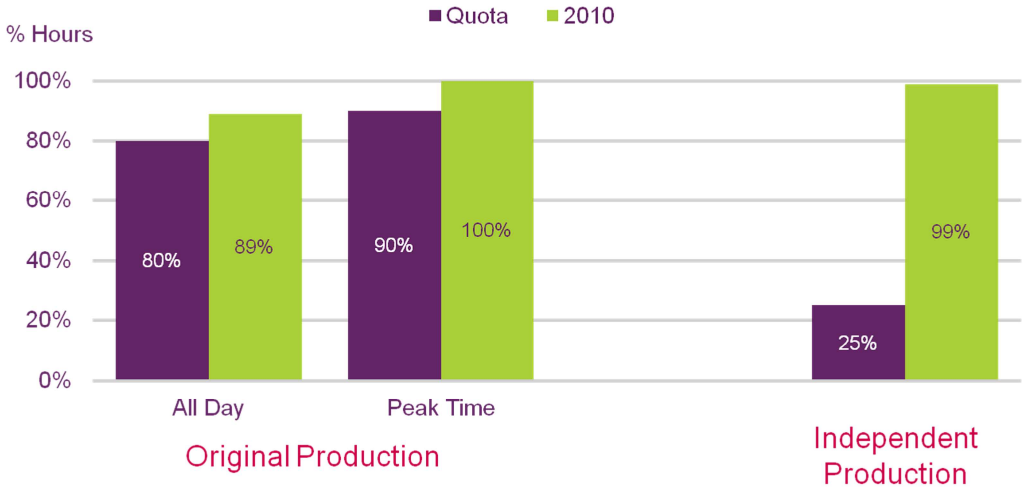


Figure 8.7 - S4C performance against original and independent production quotas



Repeats

8.20 The definition of original programming includes repeat showings of commissioned programmes. For example, although Channel 5 has consistently met or exceeded its original production quotas – reduced in 2009 to 50% overall with 40% in peak – it has increasingly done so with repeats. These accounted for 59% of Channel 5's scheduled programming in 2010, compared to 42% in 2005. In comparison, repeats account for a quarter of Channel 3's total schedule, although Channel 4's is also just over 50%.

8.21 There are no quotas to restrain the volume of repeats on any UK television channel (although the quota of programmes screened by ITV in the nations and regions has to be made up of first run originations and not repeats). However, viewers have expressed concerns about the extent of repeats on television. According to results from our Media Tracker (an annual survey of viewers' perceptions and attitudes to television) "more repeats" was the main reason cited by 65% of those people who thought programme standards had got worse.

8.22 In 2010, the proportion of repeats on BBC 1 was 8.4% and on BBC 2, 28.3%. The S4C repeat level for 2010 was 54.2%.

8.23 Repeats made up the majority of Welsh-language programming in 2010. The repeat level reflects S4C's policy of ensuring multiple opportunities to view peak time Welsh-language programming, maximising the investment made in these programmes.

3. Out-of-London Production & Programmes made for Viewers in Wales

8.24 Under section 286 of the Act, we are required to set licence conditions to ensure that a suitable proportion of programmes made in the UK for viewing on a PSB channel, both in terms of volume and expenditure, are produced outside the M25 area. These obligations have become known as the out of London quotas.

8.25 In order to qualify against the quota, programmes must comply with two of the three criteria contained in our Regional Production Definition, which became the industry standard in 2006:

- having a substantive base in the relevant nation or regional area;
- achieving a minimum level of expenditure in the nation or region; and
- achieving a minimum spend on production talent in the nation or region.

Network Programming

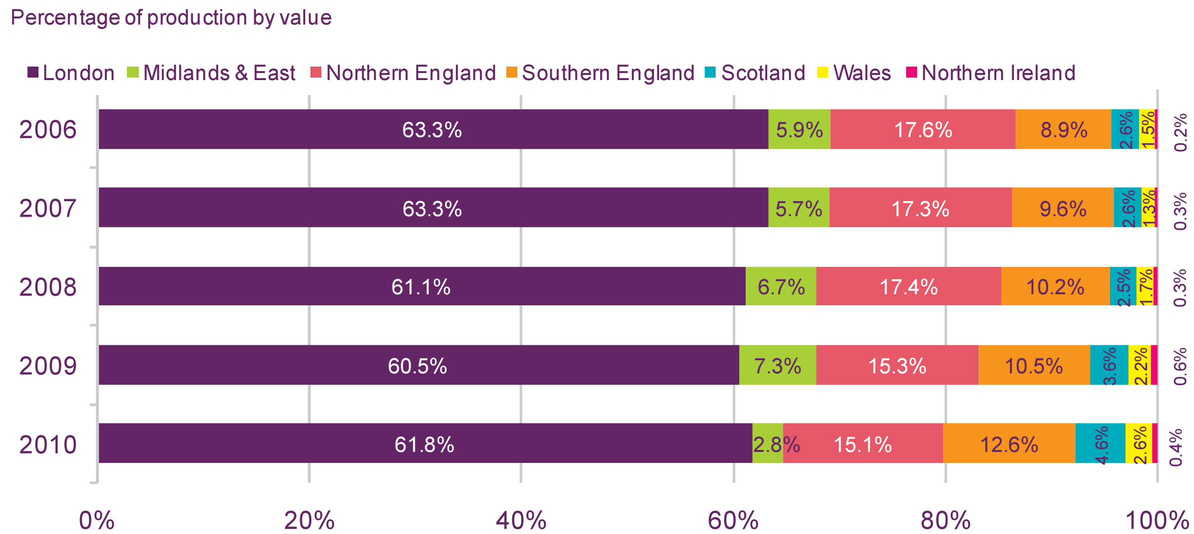
8.26 Spending on PSB network programming across the five main PSB channels and the BBC digital channels increased by 2% in real terms in 2010 to £2.9 billion.

8.27 The proportion of spend on network productions in the UK by the four PSBs collectively is displayed in the chart below. In general, production – whether measured by spend or volume – continues to be concentrated in London and the English regions, with significantly less money spent on productions in Scotland, Wales and Northern Ireland. However, the proportion of expenditure on programming produced in London is gradually falling – down from 63.3% in 2006 to 61.8% in 2010.

8.28 A further 15% of first-run spending was devoted to productions based in the North of England and 12.6% in Southern England.

8.29 In Wales, first-run productions accounted for 2.6% of expenditure, up from 2.2% of total expenditure in 2009. In Scotland, the figure rose from 3.6% to 4.6%. In Northern Ireland, the figure fell from 0.6% of total spending to 0.4%.

Figure 8.8 - Expenditure on out-of-London productions

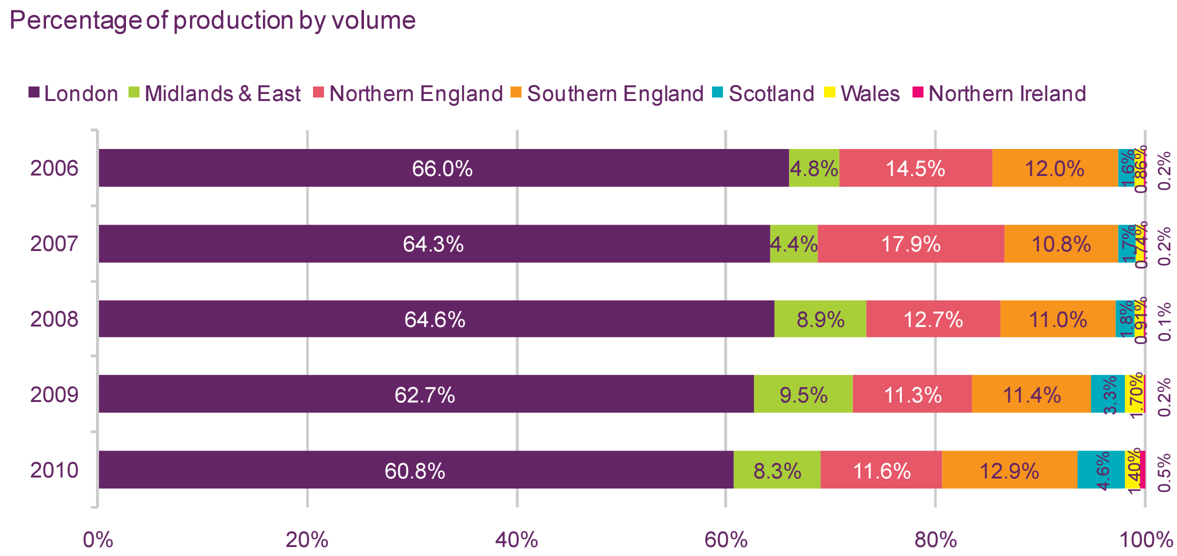


8.30 Of first-run programmes made in the UK in 2010, 60.8% were produced within the M25, down from 62.7% in 2009 and 66% in 2006. A further 11.6% were produced in Northern England, 12.9% in Southern England and 8.3% in the Midlands and East.

8.31 The BBC/ITV produced a total of 11,046 hours of programmes for the English regions, Scotland, Wales and Northern Ireland in 2010, up by 6% from 10,439 hours in 2009. The number of hours produced specifically for viewers in Wales in 2010 was down by 3% from 1,036 hours in 2009, a 24% decline since 2005. Hours of current affairs output from ITV 1 and the BBC was up year on year by 8% and 10% respectively.

8.32 Producers in Wales delivered 1.4% of all first-run hours during 2010 (down from 1.7% in 2009 but up on the 2006 figure of 0.9%. The comparable figure for Scotland was 4.6%, up from 3.3% twelve months earlier (and up from 1.6% in 2006). In Northern Ireland, first-run hours produced rose from 0.2% to 0.5% in 2010.

Figure 8.9 - Volume of out-of-London productions



BBC

8.33 The BBC's out-of-London quotas are set at 30% by value and 25% by volume and apply across all its PSB channels. The BBC exceeded these quotas in 2010, achieving 38% by value and 39% by volume. The BBC will increase its production and commissioning of programmes from outside London, committing to achieve 50% by 2016 and, within this figure, to achieve 17% from the devolved nations. BBC Wales is expected to be a key beneficiary of the BBC's decision to double network production from BBC Wales and boost out of London production by 2016.

8.34 BBC Wales supplies networking programming for BBC 1, 2, 3 and 4. In 2010, 47 network productions were produced by BBC Wales including Coast, Doctor Who, Merlin, Sherlock and the Indian Doctor.

8.35 BBC Wales has recently opened its Drama Village in Cardiff Bay which will be the future home of network drama productions including Casualty, which moves from Bristol, and other major network productions such as Doctor Who, The Sarah Jane Adventures, Pobol y Cwm, Sherlock and Upstairs, Downstairs. The Drama Centre will replace two current BBC Wales drama production sites at Llandaff, in Cardiff, and in Upper Boat near Pontypridd.

8.36 BBC Wales also supplies a minimum of 10 hours per week of Welsh language programmes to S4C free of charge (paid through the licence fee) which in 2010 totalled 711 hours at a cost of around £23 million. The programmes supplied include the channel's news service, Newyddion, and the channel's main daily soap, Pobol y Cwm. In addition to the statutory supply, S4C also commissions programming from the BBC on commercial terms and made payments totalling £3.1 million to the BBC for the provision of the weekly omnibus repeat and 30 summer episodes of Pobol y Cwm which were not provided as part of the statutory hours. In 2010, the BBC supplied 258 additional hours to S4C.

ITV

8.37 The quotas for Channel 3 licensees increased in 2005 from 33% by volume and 40% by expenditure to 50% by both volume and spend. This was in response to a concern that output on the PSB channels could not adequately reflect the full cultural diversity of the UK when (at the time) less than 40% of programming was produced outside London.

8.38 However, it subsequently became clear that meeting the revised quota had imposed a significant cost on the Channel 3 network and in 2009 the quota was cut to 35% by spend and volume. In addition, we concluded that the requirement, which had been met by long-running shows including quiz and other studio-based programming, had not delivered the additional diversity on screen which it had been in part intended to achieve.

8.39 As part of our second PSB Review, and recognising the need to align PSB requirements on Channel 3 with the diminishing value to ITV of holding the licences, ITV's out-of- London quota level was reduced from 50% by value and by volume to 35% with effect from 2009. The levels achieved in 2010 were 39% in terms of value and 44% by volume.

8.40 However, viewers remain concerned that programmes on PSB channels fail to portray their Nation or region well to the rest of the UK. In 2010, whilst 62% considered it was important that PSB services achieved this aim, only a third believed they did so.

8.41 ITV Wales has had limited success in supplying programmes to the ITV network in recent years. In practice, the ITV network has been able to meet its "out of London" quota by sourcing programmes primarily from production centres in the English regions. However, ITV Wales supplies around an hour a week of Welsh language programming to S4C on commercial terms including the long-running current affairs programme, Y Byd ar Bedwar, the youth oriented current affairs series, Hacio, and the series focusing on rural life in Wales, Cefn Gwlad.

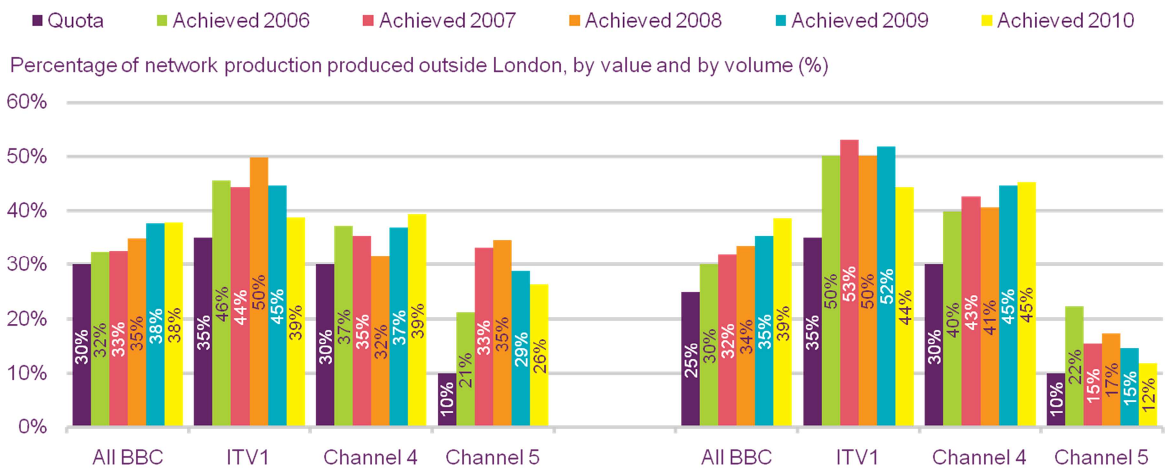
Channel 4

8.42 In 2010, Channel 4 achieved 39% by value and 45% by volume, easily exceeding its new quota of 35% which came into effect at the beginning of 2010 (raised from 30%). Alongside the 2010 quota revision, 3% of programmes must be produced outside England and this figure is expected to increase in future years. In 2010, Channel 4 commissioned 9 network productions from Wales including the Boomerang-produced extreme sports programme – Freesports on 4.

Channel 5

8.43 Channel 5 has a lower quota commitment, at just 10%, but it exceeded its obligations in 2010, reaching 26% by value and 12% by volume. These figures are lower than previous years and are based on lower expenditure figures than the other broadcasters.

Figure 8.10 - Performance against the out-of-London production quotas



4. Non-networked Nations & Regions Programming

8.44 Nations and regions programmes are defined as non-networked programmes, produced in the nations and regions specifically for local audiences. They are broadcast on Channel 3 and BBC One and Two.

8.45 The Act requires us to set conditions to ensure the delivery by ITV licensees of a suitable range of high quality programming of particular interest to persons living within the area covered by the service, including regional news programming. The BBC's quotas for the English regions and nations are set by the BBC Trust and apply across the total volume of regional programming produced in the UK as a whole, rather than individually for each nation and region.

ITV

8.46 Following our second PSB review, reductions in ITV Plc's output were agreed in order to bring the cost of PSB obligations in the licences more closely into line with the benefits to ITV continuing to hold the licences. The changes to the quotas took effect from 2009. The priority was to maximise local news-gathering, within the available resources, and to provide a service relevant to viewers, making peak-time regional news the priority, with reductions during the daytime. While the peak time quota was unchanged, the standard weekly quota for regional news was cut.

8.47 In the devolved nations, quotas for non-network programmes were set at higher levels than those in the ITV English regions. They were standardised at 5 hours 30 minutes a week in Scotland and Wales and 6 hours in Northern Ireland. Within this overall figure, there is a quota of four hours for news and 1 hour 30 minutes for non-news programming (two hours in Northern Ireland). ITV achieved a total of 323 hours of programming produced specifically for viewers in Wales in 2010.

8.48 In the second PSB review, we recognised the heightened role of public service content in the devolved nations as well as the need to sustain choice to enable citizens to engage fully with new democratic institutions. However, we were also clear that although National and regional programming had been a leading part of

Channel 3's contribution to the purposes of PSB, it was an unavoidable fact that these obligations represented the single biggest cost of public service status.

8.49 Accordingly, and given the ever increasing importance of devolved institutions, we consider that securing a workable solution to plurality of news in the Nations represents an additional key consideration in determining the capability of existing licensees to contribute to the purposes of PSB.

BBC

8.50 The BBC quota for all regional programming was revised downwards in 2009 from 6580 hours per year to 6270 hours and the quota for regional programming in peak (excluding news on BBC One) reduced from 1030 hours to 655 hours. In line with the quota reductions, the level of regional programming in peak fell from 1,060 hours in 2008 to 746 hours in 2010 while total regional programmes rose from 6895 hours in 2009 to 7077 hours in 2010. The BBC achieved a total of 679 hours of programming produced specifically for viewers in Wales in 2010.

8.51 The agreed quotas for both BBC One Wales news and non-news were exceeded by a significant margin. BBC One Wales achieved 372 hours of news and current affairs (target – 250 hours) and 106 hours of non-news programming (target – 60). BBC Two Wales also exceeded its target for non-news programming by achieving 241 hours compared with a target of 190 hours.

S4C

8.52 S4C spent a total of £79 million on first-run programming in 2010, a 3% increase in nominal terms on 2009. All genres apart from Drama and Children's programming saw year-on-year increases in spending.

8.53 The total hours of Welsh language programmes on S4C increased by 38% over a four year period to 6219 hours in 2010, up by 9% year on year. This trend can be partly explained by the completion of digital switchover in March 2010 after which S4C no longer carried English language Channel 4 programming.

8.54 First-run hours commissioned by S4C (not including BBC statutory output) rose by 24% to reach 1786 hours in 2010. Of this total, 36% were General Factual programmes (635 hours) and output for children made up a further 22% (384 hours). On top of this, the BBC supplied a further 711 hours as part of its statutory commitment to the channel.

8.55 Repeats made up the majority of the channel's output in 2010 although the number of first-run acquisitions saw a six-fold increase from a small base bringing the 2010 total to 351 hours, the biggest relative increase across the categories.

Nations/Regions News

8.56 In 2010, 54% of adults in Wales, 62% in Scotland and 57% in Northern Ireland said that TV was their main source of local news, higher than the UK average of 52%. This shows the importance of television news programming in the devolved nations.

8.57 Our research has also shown that plurality in the provision of news programmes designed for the Nations and regions of the UK is of particular importance to viewers, with 79% rating it as important. However, unlike national news provision, there is a notable difference between the perceived importance of such programming and viewer satisfaction: only 52% of viewers think that news programming for the Nations and English regions is delivered well by the PSBs as a whole.

8.58 Our research has shown that the strength of opinion on this matter is not uniform across the UK. Between 2007 and 2010 opinions among regular viewers of Channel 3 on the delivery of nations and regions news have become less positive in each devolved Nation, while remaining static in England. Satisfaction with Nation news on Channel 3 declined from 66% to 57% in Scotland, from 64% to 52% in Wales and from 77% to 69% in Northern Ireland over this period, during which regional programming quotas were cut.

8.59 Similarly, although viewing levels vary significantly across the UK, the evidence suggests this type of programming is of particular importance in the devolved nations. Viewing of Scottish, Welsh and Northern Ireland focussed news programming consistently exceeds the UK average of 28 hours per annum.

8.60 Across the UK in 2010, the average individual watched a total of 88 hours of UK nations/regions news. Time spent viewing varied by devolved nation and English regions.

8.61 Viewing of nations/regions news in Wales (29 hours) was the lowest of the devolved nations, but more than the UK average (28 hours). The share of audience for ITV Wales Tonight and BBC Wales Today stood at 15% and 36% respectively in 2006 compared with 17% and 28% in 2010.

5. UK & International News and Current Affairs

8.62 The news quota is one of the few to apply to a specific programme genre and recognises the importance of a plurality of sources of news and the fact that it is not always possible for this to be provided by the market without intervention.

8.63 The Act requires us to set licence conditions to ensure the delivery of high quality news and current affairs programming, tackling both national and international matters. Quotas are agreed at different levels for the volume of UK and international news programmes to be broadcast across the whole day and in peak.

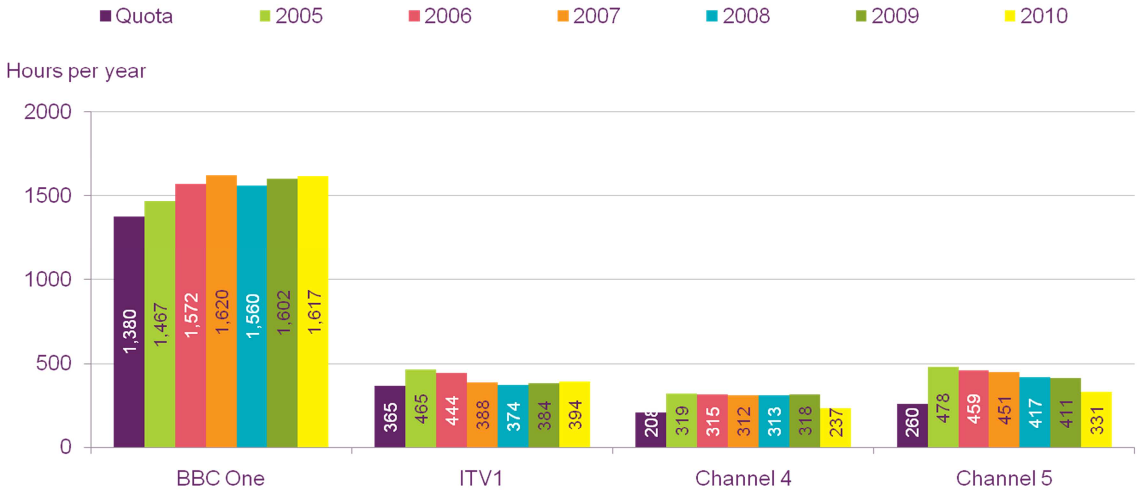
8.64 Our research has consistently identified news programming as the most valued of all public service genres. Over 80% of viewers asked in our most recent PSB tracker survey said it was important that such programming was “trustworthy”, would “help me understand what’s going on in the world today” and cover major news stories well.

8.65 Viewers have also emphasised the importance of plurality in both news and current affairs genres. Research conducted during our last PSB review showed that 86% of those questioned thought plurality of news provision among the main television channels was important, with 77% assigning a similar value to current affairs programming.

8.66 Given the central role played by news in the delivery of public service purposes, we concluded in the PSB review that Channel 3 and Channel 5 licence holders should retain obligations to provide news content beyond 2014. The burden placed by continuing obligations in this area is, however, uncertain. In light of the importance attached by viewers to news programming and an expectation that established broadcasters will provide it, it is certainly possible that the provision of news provides an intangible value for public service broadcasting networks in building brand confidence and reputation. Nevertheless it is clear that the existing obligations provide a strong regulatory support for plurality in news provision.

8.67 BBC One has the highest targets for news. Across the full 24-hour broadcasting day, BBC One achieved 4,999 hours in 2010, against its quota of 3,920.

Figure 8.11 - Performance against national and international news quotas, all day



8.68 In peak-time, separate quota levels are set. All broadcasters exceeded the minimum levels expected.

Figure 8.12 - Performance against national and international news quotas, peak-time

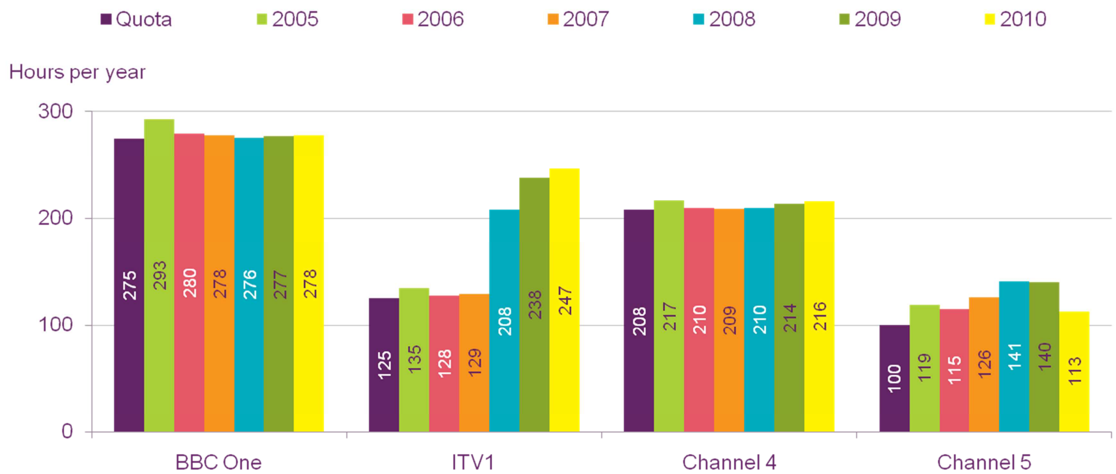
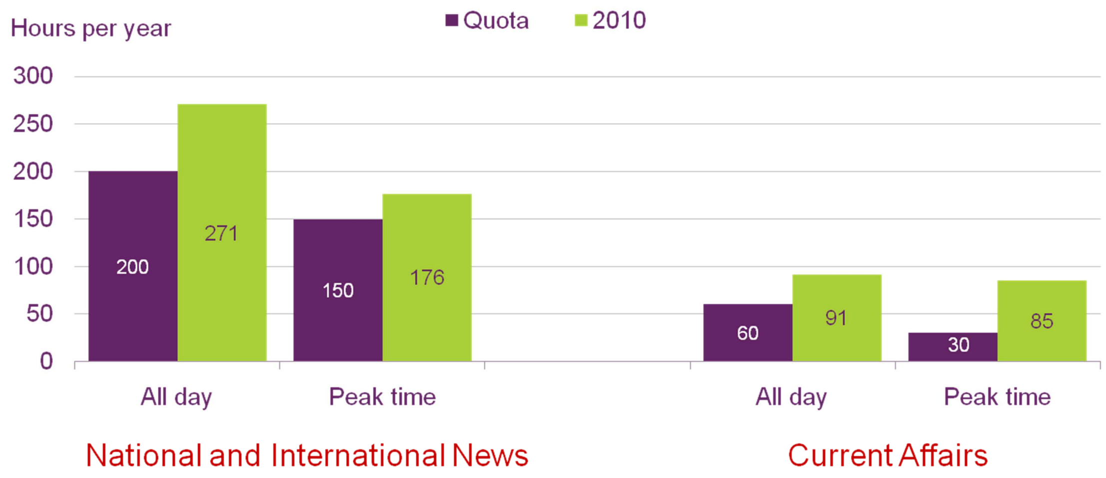


Figure 8.13 – S4C Performance against national and international news quotas and current affairs



Section 9

Radio in Wales – Introduction & Our Regulatory Role

9.1 In Wales, as in the rest of the United Kingdom, radio has become an essential component of public mass entertainment and information. Whilst historically the radio market has been less developed in Wales than in other parts of the UK, it has found its natural space for consumers alongside television services and has a vital role in fulfilling a range of public purposes – a role shared between the BBC, commercial radio and the community radio sector.

9.2 In recent years, listeners have benefited from significant changes in the way radio services are delivered – from traditional analogue radio; to digital radio via DAB; digital television; and the internet. An ever increasing proportion of listening is on digital platforms and, whilst the topography of Wales is likely to mean that AM, especially in cars, continues to be important, it is expected that digital platforms will account for the vast majority of radio listening in the future.

9.3 For established commercial radio broadcasters, these rapid and constant technological changes and the consequent explosion of consumer choice brings new challenges through increased competition for listeners and revenues; and increased costs from having to invest in new platforms. Furthermore, the pressure on commercial broadcasters has been further accentuated by consumer demands for local programming and the effect of the recent economic downturn.

9.4 Our research has found that the public values local content on commercial radio: both core functional content (local news, traffic & travel and weather) and other local content (such as local sport or community issues) that reflects local identities.

9.5 However, local programming is expensive to deliver and the commercial realities of increasing competition mean that producing a high volume of local programming is no longer as commercially sustainable as it used to be.

9.6 In view of the considerable challenges which face the commercial radio sector in Wales, our goal is to ensure that the current regulatory regime is flexible enough to adapt to rapidly changing circumstances and to ensure that the interests of citizens and consumers continue to be met.

Our Duties – Radio

9.7 A healthy and sustainable commercial radio industry is necessary to deliver the public policy objectives which help us to meet our statutory duties.

9.8 Our role is to ensure that regulatory burdens are not heavier than required, or worse, counter-productive, threatening the viability of stations. The central challenge for regulation is to secure the delivery of local radio content in the light of financial realities, while at the same time creating an industry structure for the future.

9.9 Consequently, we have already taken proactive steps to reduce the regulatory burden on the commercial radio sector and has attempted to align the analogue and digital regimes more closely, taking into account the aims, set out by Parliament:

9.10 We have a number of duties, set out in legislation, in relation to the regulation of radio. These include:

- Promoting the interests of citizens and consumers;
- Ensuring a wide range of high-quality radio programmes are provided, appealing to a range of tastes and interests;
- Ensuring radio services are provided by a range of different organisations;
- Ensuring, for each local station, an appropriate amount of local material with a suitable proportion of that material being locally made - fulfilling the need for local news to ensure informed debate.
- Ensuring people who listen to the radio are protected from harmful or offensive material;
- Ensuring people are protected from being treated unfairly in radio programmes, and from having their privacy invaded;

9.11 As in other parts of the UK, listeners in Wales can access radio services through a variety of platforms and technologies including traditional analogue radio, DAB digital radio, digital television and the internet.

9.12 Ownership of analogue radio is almost universal, while listening on digital platforms such as DAB, digital television and the internet is growing. A comparatively small number of people listen to radio on their mobile phone or by podcasts on MP3 players.

9.13 The BBC provides two national services for Wales: Radio Wales in English and Radio Cymru in Welsh. In addition, there are 18 commercial analogue radio stations licensed to broadcast in Wales and 9 licensed community radio stations.

Radio Listening

9.14 Hours of radio listening are higher in Wales than in any other UK nation. In Q1 2011, radio services reached 92.9% of the adult population in Wales on a weekly basis, up by 2.4 percentage points from 90.5% in Q1 2010.

9.15 Average hours per listener in Wales were also the highest, at 23.3 hours per week, compared to the UK average of 22.3 hours.

Levels of Radio Listening in 2011

Figure 9.1 - Average weekly listening hours and percentage reach of population

	England	Scotland	Wales	Northern Ireland
Average weekly	22.3 hours	21.8 hours	23.3 hours	22.2 hours
Reach	90.9%	88.1%	92.9%	92.0%

Source: RAJAR Q1 2011

Section 10

Radio in Wales – Stations

BBC Radio Wales & BBC Radio Cymru

10.1 The BBC provides two national services for Wales, Radio Wales (on AM and FM) in English and Radio Cymru (on FM) in the Welsh language.

10.2 Radio Cymru's FM service covers 94.8% of the population. However, as Radio Wales began primarily as an AM network, its FM coverage is more restricted, reaching just 68% of the population.

10.3 Indeed, both our Advisory Committee for Wales and the BBC's Audience Council for Wales have expressed their concerns at the prospect of digital radio switchover based on the principle of matching DAB to FM coverage. Local DAB coverage is significantly lower than the UK multiplex services and, taken as a whole, DAB coverage is currently well below FM coverage across Wales (see Section 12).

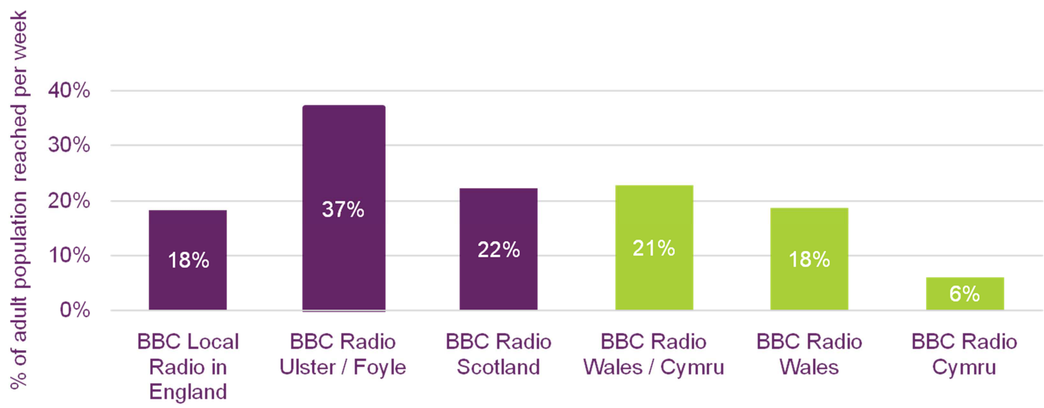
10.4 For example, large numbers of BBC Radio Wales listeners in the south Wales valleys rely on an AM service. 55-60% of people in Wales are currently unable to receive BBC Radio Wales or BBC Radio Cymru on DAB and about 70% of Welsh speakers cannot receive BBC Radio Cymru on DAB, contrasting with 80% coverage for BBC Network Radio stations in Wales.

10.5 Therefore, given Wales' topography with significant mountainous areas where FM, let alone DAB reception is difficult, the provision of AM reception in cars will presumably continue to be important for the foreseeable future.

Station	Population	Reach (000s)	Reach Percent
BBC Radio Wales	2,524,000	479,000	19%
BBC Radio Cymru	2,524,000	138,000	5%

10.6 News programming on BBC Radio Cymru and BBC Radio Wales contributed significantly to this reach with *Post Cyntaf* serving an average audience of 40,000 and *Good Morning Wales* 80,000.

Figure 10.1 - Weekly Reach for National/Local BBC Services



Commercial Radio in Wales

10.7 Wales is currently served by the following local and regional commercial radio stations:

Figure 10.2 - Wales: Commercial Radio Stations [3]

Station	**Area**	**Group**	**Population** [4] (000s)	**Reach** (000s)	%
Real Radio	Wales	GMG	2,524	495	20%
Real Radio	South Wales	GMG	1,837	447	24%
Real Radio	North Wales	GMG	688	48	7%
Kiss West [5]	S.Wales/S.W England	Bauer	2,393	471	20%
Capital FM	South Wales	Global	997	261	26%
Gold	South Wales	Global	997	46	5%
Gold	North West & Wales	Global	997	23	2%
Heart	North West & Wales	Global	997	209	21%
The Wave	Swansea	UTV	458	151	33%
Swansea Sound	Swansea	UTV	458	65	14%
Swansea Bay Radio	Swansea	T&C	458	43	9%

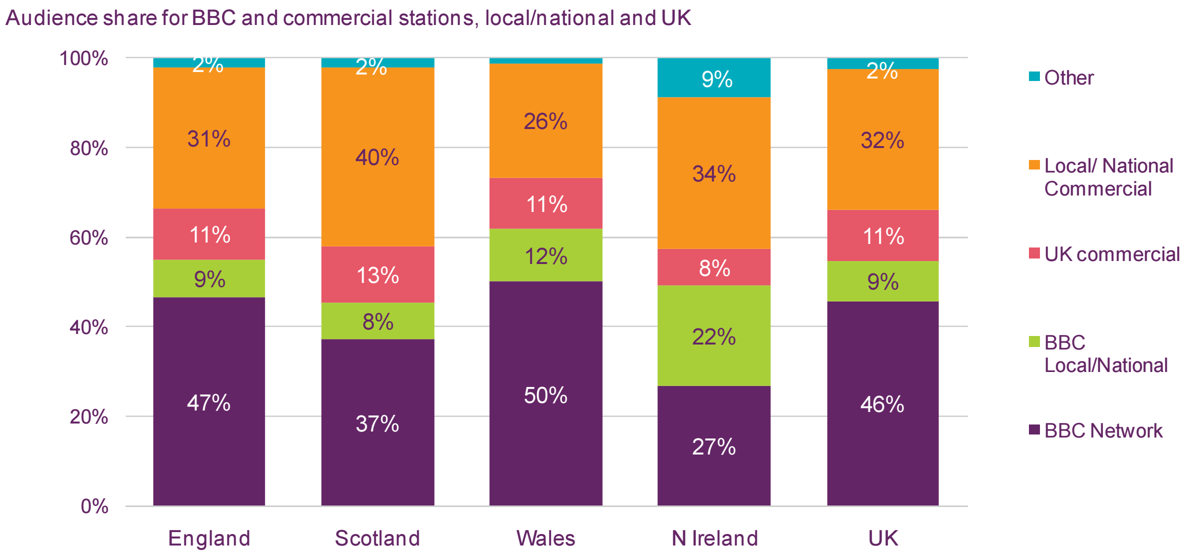
[3] All stations are FM except Gold and Swansea Sound which are AM stations.
[4] Adults (15+) Source: RAJAR September 2011.
[5] Kiss West's licence area covers South Wales and the West of England.

Bridge FM	Bridgend	T&C	123	41	33%
Radio Pembrokeshire	Pembrokeshire	T&C	96	41	43%
Radio Carmarthenshire [6]	Carmarthenshire	T&C	127	40	31%
Nation Radio	South Wales	T&C	1,421	136	10%
Radio Ceredigion	Ceredigion	T&C	82	10	13%

Commercial Radio: Listening

10.8 The share of listening of local commercial radio stations in Wales was at just over a quarter (26%). This was lower than the other UK nations with Scotland at 41%, Northern Ireland at 32% and England at 31%.

Figure 10.3 – Audience Share for BBC & Commercial Stations



Source: RAJAR, All adults (15+), year ended Q1 2011

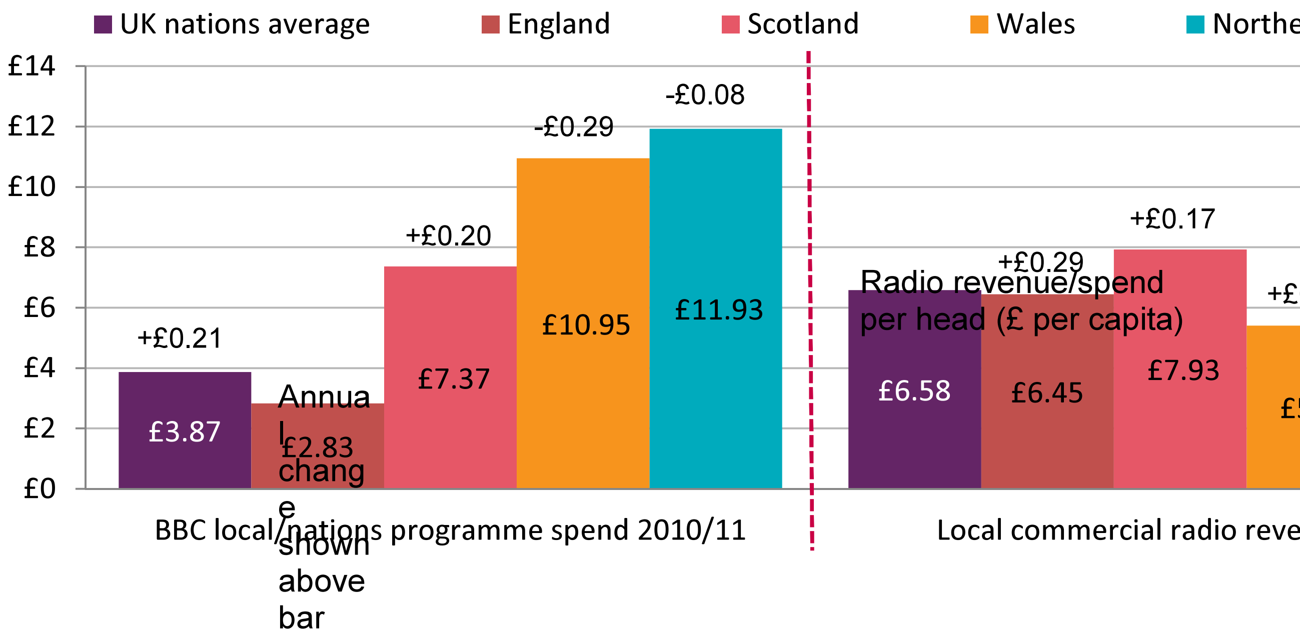
Commercial Radio Revenue & BBC Radio Funding

10.9 Revenue generated by the commercial stations in Wales totalled £16.3 million in 2010. Adjusting for population size, Wales had the lowest revenue per head of the UK nations, at £5.41, despite a £0.20 (4%) increase on 2009. In contrast, BBC radio spend on BBC Radio Wales and BBC Radio Cymru totalled £33.1 million in 2010/11. Expenditure per head was the second highest of the UK nations at £10.95, a 2% increase on the previous year. This is due to the smaller population in Wales and the

[6] The Radio Carmarthenshire licence includes Scarlet FM which serves Llanelli.

added expenditure of running two services. It compares to the UK average spend per head of £3.87.

Figure 10.4 - Local/Nations Radio Spend & Revenue 2010/11



Source: Broadcasters, 2010

Radio Groups - Wales

Bauer Media

10.10 Bauer Media owns Kiss West, a specialist dance music station serving South Wales and the West of England.

10.11 Bauer Media is a division of the Bauer Publishing Group, Europe's largest privately owned publishing Group. The Bauer Publishing Group is a worldwide media empire offering over 300 magazines in 15 countries, as well as online, TV and radio stations.

10.12 Bauer Media joined the Bauer Publishing Group in January 2008 following acquisition of Emap plc's consumer and specialist magazines, radio, TV, online and digital businesses. Collectively, the Bauer Publishing Group employs some 6,400 people.

Global (formerly GCap Media Plc)

10.12 Global is the UK's largest commercial radio broadcaster created following the merger of the GWR Group and Capital Radio.

10.13 In Wales, Global owns Capital FM and Gold (Cardiff/Newport) in South Wales and Heart North Wales Coast, Heart Wrexham & Chester and Heart Cymru in North Wales. The group also owns the Now Digital DAB multiplex, serving Cardiff/Newport.

Guardian Media Group (GMG)

10.14 In Wales, this group owns Real Radio. The station was launched in October 2000, serving South Wales only but in December 2008, GMG was awarded a FM licence to launch Real Radio in North and Mid Wales. Following an agreed format change request, the existing South Wales service has been rolled out to the new coverage area. The station began broadcasting on its North and Mid Wales frequencies at 8am on Tuesday 4 January 2011.

10.15 GMG also has a share in the MXR DAB multiplex which serves South Wales and the West of England.

UTV Radio

10.16 UTV Radio is a subsidiary of UTV Plc which operates the Channel 3 licence for Northern Ireland and a range of radio services across the UK.

10.17 In Wales, it owns Swansea Sound and The Wave. It also has a share in the Swansea DAB multiplex.

10.18 Following acquisition of the Wireless Group in 2005, UTV also owns the UK-wide AM station, talkSPORT.

Town & Country Broadcasting

10.19 Wales' only indigenous radio group has become one of the largest commercial radio operators in Wales. It operates seven services.

10.20 It owns Radio Ceredigion, Radio Pembrokeshire, Scarlet FM (Llanelli), Radio Carmarthenshire, Swansea Bay Radio, Bridge FM (Bridgend) and Nation Radio (covering South Wales).

10.21 The group acquired XFM South Wales from GCap/Global in May 2008 and subsequently re-branded the service as Nation Radio.

10.22 In July 2011, we rejected Radio Ceredigion's application to change the format of Radio Ceredigion following a public consultation. The station asked us to consider the removal of the current requirement that the station's bilingual output should equate to roughly half and half English and Welsh and asked for a reduction in the requirement for Welsh-language music tracks (during daytime hours) from 20% to 10% of music output.

10.23 The existing Character of Service (as set out in Radio Ceredigion's published Format document) is as follows:

- **A LOCAL COMMUNITY-ORIENTED BILINGUAL (ROUGHLY HALF AND HALF ENGLISH AND WELSH) STATION FOR THE WEST WALES COAST. AT LEAST 20% OF THE MUSIC BROADCAST DURING DAYTIME SHOULD BE WELSH-LANGUAGE TRACKS, AND AT LEAST AN HOUR OF COMMUNITY PROGRAMMING IN THE WELSH LANGUAGE SHOULD BE BROADCAST EACH WEEKDAY.**

10.24 The new Character of Service proposed by Radio Ceredigion Ltd was:

- **A LOCAL COMMUNITY-ORIENTED BILINGUAL STATION FOR THE WEST WALES COAST. AT LEAST 10% OF THE MUSIC BROADCAST DURING DAYTIME SHOULD BE WELSH-LANGUAGE TRACKS, AND AT LEAST AN HOUR OF COMMUNITY PROGRAMMING IN THE WELSH LANGUAGE SHOULD BE BROADCAST EACH WEEKDAY.**

10.25 We determined that the request, if approved, would be likely to result in a substantial change to the character of Radio Ceredigion's service, given the reduction in Welsh language material that the station would be required to broadcast. Therefore, in accordance with the statutory requirements, the proposed changes were subject to a public consultation.

10.26 We received 123 responses to the consultation, which ran for four weeks until 03 June 2011. The overwhelming majority (116) of the responses were against the Format Change Request being approved.

10.27 The local commercial radio licence for Ceredigion, held by Radio Ceredigion Ltd, was scheduled to be 'pre-advertised' in September 2011. However, Radio Ceredigion Ltd informed us that it was not prepared to make the commitment to the station's existing Format which we require in order to be able to proceed with the 'special application procedure' (known as the 'fast-track' relicensing process). Therefore, the Ceredigion licence was fully re-advertised on 4th October 2011.

Radio Hafren

10.28 Radio Hafren (formerly Radio Maldwyn - The Magic 756) is a local commercial radio station serving Mid Wales and the English border counties based in Newtown, Powys.

Sunshine FM

10.29 Murfin Media Ltd. owns Sunshine FM which serves Herefordshire & Monmouthshire.

Section 11

Community Radio in Wales

11.1 Community radio stations typically cover a small geographical area with a coverage radius of up to 5km and run on a not-for-profit basis. They can cater for whole communities or for different areas of interest – such as a particular ethnic group, age group or interest group. Community radio stations reflect a diverse mix of cultures and interests.

11.2 In Wales, there are currently nine licensed services currently on air. In March 2010, Point FM, serving Rhyl in North Wales, became the latest community radio station to launch.

11.3 The Welsh Government's Community Radio Fund agreed that all seven applicants should receive some funding. No applications were received from Radio Cardiff or Radio Tircoed.

Figure 11.1 - Community Radio Stations in Wales

Community Station Awarded	Location	On-Air Date	Grant
XS (formerly Afan FM)	Port Talbot	20/04/2007	£10,000
BRfm	Brynmawr	18/10/2007	£16,500
Bro Radio	Barry	31/03/2009	£15,899
Calon FM	Wrexham	01/03/2008	£16,500
GTFM Pontypridd	Pontypridd	01/01/2006	£16,500
Point FM	Rhyl	24/03/2010	£10,000
Radio Cardiff	Cardiff	08/10/2007	
Radio Tircoed	Tircoed Forest	01/12/2008	
Tudno FM	Llandudno	12/07/2008	£15,222

11.4 We also operate a Community Radio Fund. The Community Radio Fund Panel will meet to consider the latest round of applications on 30 January 2012.

11.5 In July 2009, Radio Cardiff and Radio Tircoed were the latest Welsh community radio stations to receive funding from our Community Radio Fund to fund their station/studio managers and provide volunteer training:-

Radio Cardiff	Station Manager	£16,000
Radio Tircoed	Studio Manager Volunteer Training	£14,000 £1,000

11.6 In April 2011, we announced a third round of community radio licensing. However, it will not be possible to launch new services in several areas of Wales, including Newport and Swansea, due to a shortage of available frequencies.

11.7 Six applications were made from prospective community radio stations in Wales

- Community Radio Wales FM (St Asaph and Denbigh, North Wales)
- Glan Clwyd AM (Abergele and St Asaph, North Wales)
- Harlech FM (Harlech, Gwynedd)
- MonFM (Isle of Anglesey)
- Radio Beca (Carmarthenshire, Ceredigion and north Pembrokeshire)
- Radio FAM (Prestatyn, North Wales)

Section 12

Digital Radio in Wales

12.1 Digital Radio is already broadcast on digital television: Digital Terrestrial Television (DTT), Digital Satellite and Digital Cable. It is also possible to listen to digital radio online either via a computer or through portable devices such as Internet Radios.

12.2 However, the main portable platform for digital radio is Digital Audio Broadcasting (DAB), which is the platform generally regarded by the radio industry as the main replacement for analogue radio in the UK.

12.3 Unlike conventional AM and FM radio, which provides one radio service per frequency, DAB is delivered via a multiplex which uses one frequency to provide a number of digital radio services.

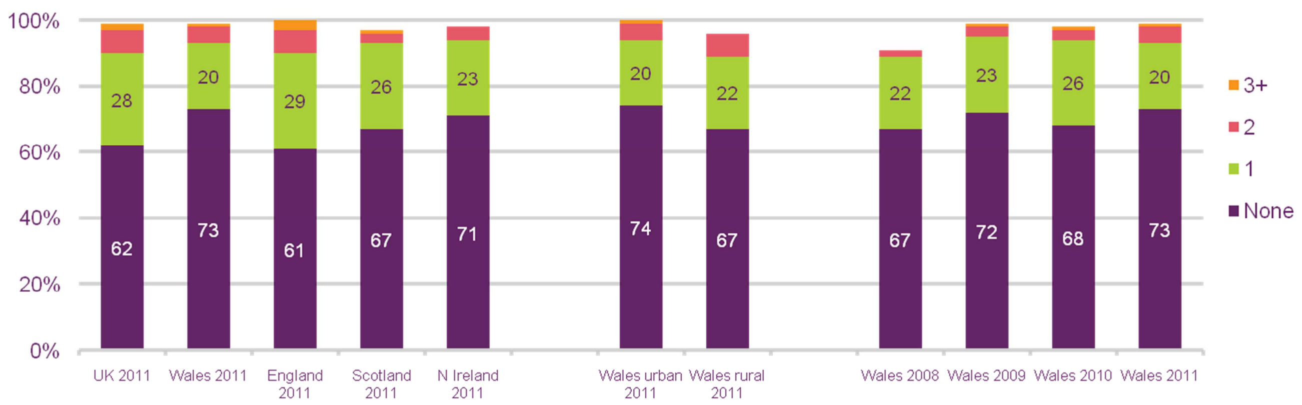
12.4 DAB radio is currently delivered across Wales via the UK BBC multiplex and the Digital One multiplex, owned by Arqiva. The combined coverage of both multiplexes serves around 68% of the population in Wales.

12.5 In addition south Wales is served by one regional multiplex, which also covers the west of England and two local commercial multiplexes serving Cardiff/Newport and Swansea.

Ownership

12.6 Across Wales, 27% of adults claim to own at least one DAB digital radio set, compared to the UK average of 37%. The proportion of DAB set owners in Wales is ten percentage points lower than the UK average, which may have some connection to the availability of DAB in Wales compared with the rest of the UK.

Figure 12.1 - Ownership of DAB digital radios



Source: Ofcom Research Q1 2011

DAB Availability

12.7 Currently, DAB radio is broadcast on two UK-wide multiplexes, along with a network of commercial regional multiplexes and local commercial multiplexes.

12.8 Wales is served, along with the rest of the UK, by the BBC (UK) multiplex, and the Digital One multiplex (which covers Great Britain, but not Northern Ireland). Parts of South Wales are also served by a regional multiplex which serves the 'Severn Estuary' operated by MXR and there are currently two local commercial multiplexes on air, serving Cardiff/Newport and Swansea.

12.9 For technical reasons, it is not possible to vary the service line-up on the UK multiplexes to carry services specifically for Wales. Therefore, the BBC UK multiplex does not carry Radio Wales or Radio Cymru. In effect these services are treated instead as 'local services'.

12.10 In the UK, local commercial multiplexes also must carry the BBC's local radio services. This model was developed to accommodate BBC local radio and has worked reasonably well in England, although the existing local multiplexes do not always exactly fit BBC local radio coverage areas. However, this approach is not appropriate for the nations, where the BBC has not developed a local radio model, but instead has created national services.

12.11 In Wales, under the must-carry arrangements, BBC Radio Cymru and Radio Wales are carried on the two existing local commercial multiplexes serving Cardiff/Newport and Swansea providing coverage of these services to around 45% of households.

BBC (UK) Multiplex

12.12 Coverage of the BBC DAB UK multiplex in Wales, which is broadcast from eight sites, has continued to improve and now reaches 68% of households. The BBC is planning to roll out additional transmitter sites to bring coverage up to 76% of households in Wales.

12.13 The BBC multiplex carries all the BBC's UK-based radio services - Radio 1, 2, 3, 4, 5 Live, 6, BBC Asian Network, 1Xtra, 4Xtra and 5 Live Sports Extra. Therefore, there are many parts of north and west Wales that receive the BBC's UK-wide services on DAB, but are currently unable to receive Radio Wales and Radio Cymru.

12.14 Digital radio listeners living in the larger conurbations of Cardiff, Swansea and Newport receive up to 32 DAB stations. These include the 23 UK-wide BBC and commercial stations, along with BBC Radio Wales / BBC Radio Cymru and additional local services serving South Wales carried on two local commercial multiplexes.

12.15 However, the BBC's services for Wales are only carried on local commercial multiplexes and in order to extend their reach, we have, over the past two years, awarded local multiplex licenses covering most of the rest of Wales. There are currently no local DAB services on air in North or Mid Wales. Therefore, the coverage of BBC Radio Wales and Radio Cymru is still currently limited to south and east Wales.

Figure 12.2 - Coverage of BBC National Services – Wales

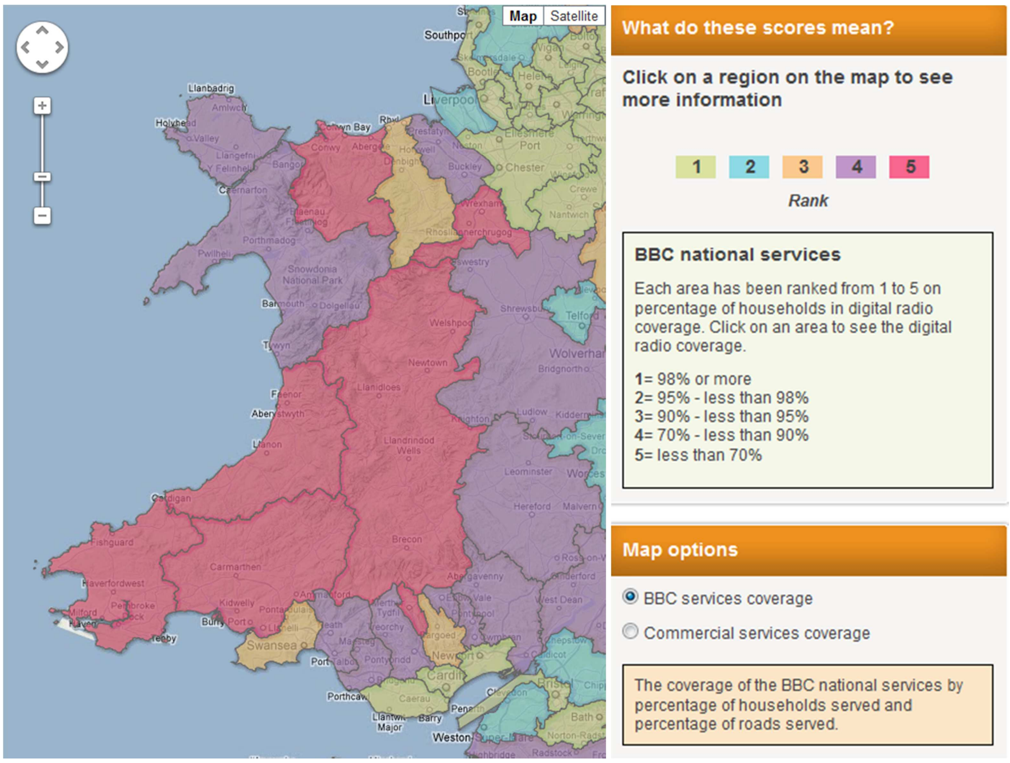
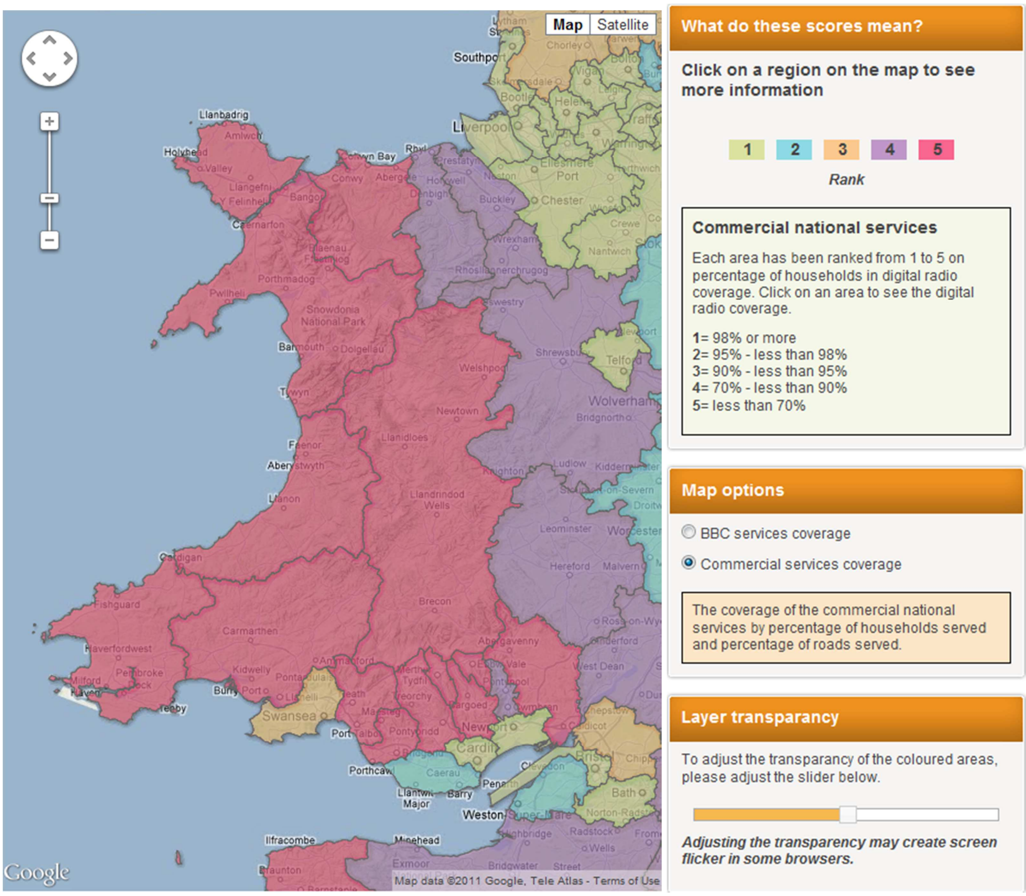


Figure 12.3 - Coverage – Commercial National Services

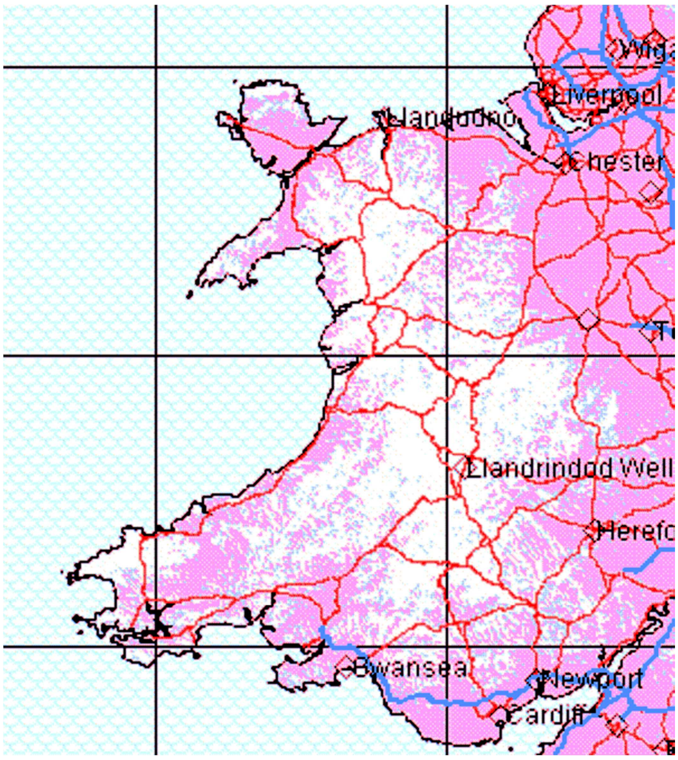


Digital One Multiplex

12.16 The Digital One multiplex, (owned by Arqiva), serves around 67% of households and is currently broadcast from nine sites in Wales. The coverage map below gives an indication of the coverage of DAB in Wales.

12.17 Digital One carries a range of services including Classic FM, talkSPORT, Absolute Radio and Planet Rock. There is currently some spare capacity on this multiplex, which also carries several test services and even a channel dedicated to birdsong.

Figure 12.4 - Digital One Coverage Map (Wales)

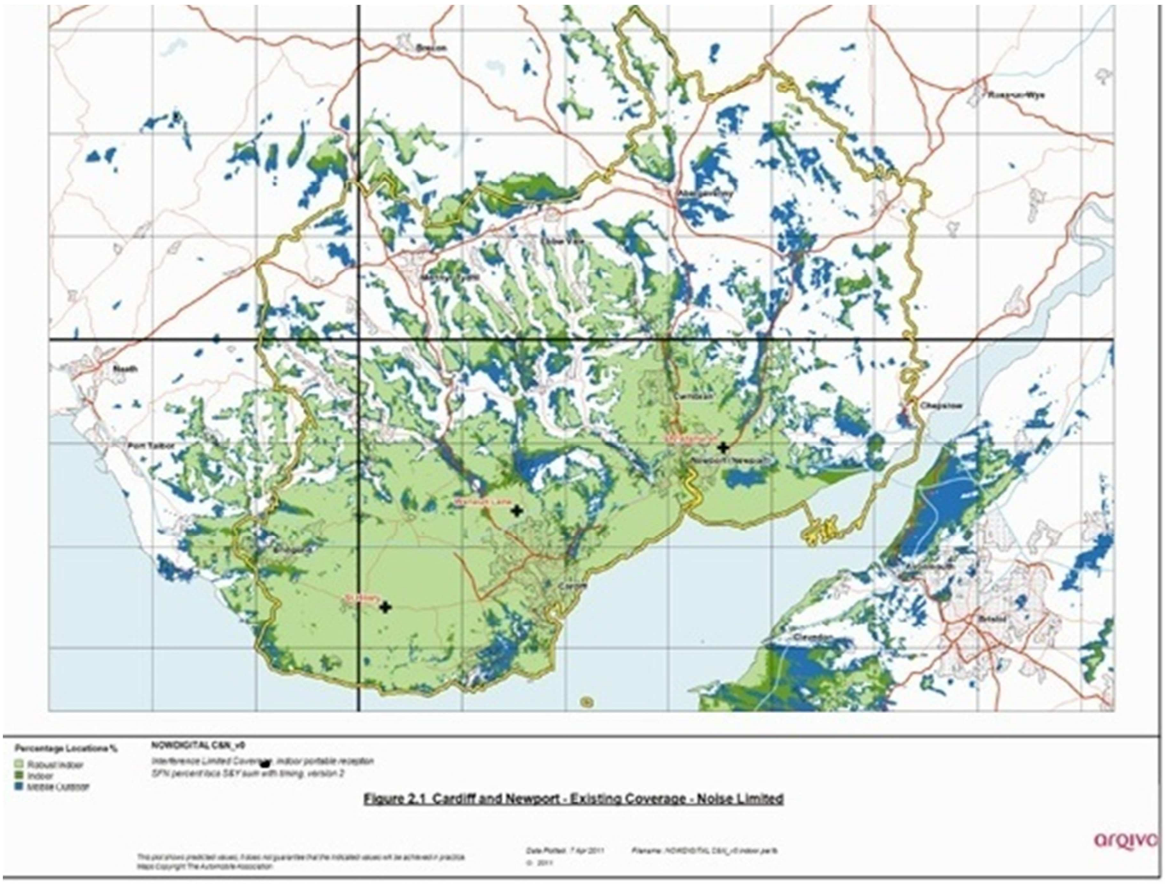


Cardiff/Newport Multiplex

12.18 The Cardiff and Newport multiplex, operated by Now Digital (owned by Global) provides services to around 49.39% of households in its editorial area and broadcasts a range of stations including seven local commercial DAB services including Capital FM, Gold (Cardiff and Newport) along with BBC Radio Wales and BBC Radio Cymru.

12.19 Online station, Voice Radio, which was available on the South East Wales DAB multiplex until July 2011, stopped broadcasting because of a lack of funding. The station – supported by organisations including Gwent Police and Caerphilly County Borough Council – closed on 31st July 2011.

Figure 12.5 – Cardiff/Newport Multiplex

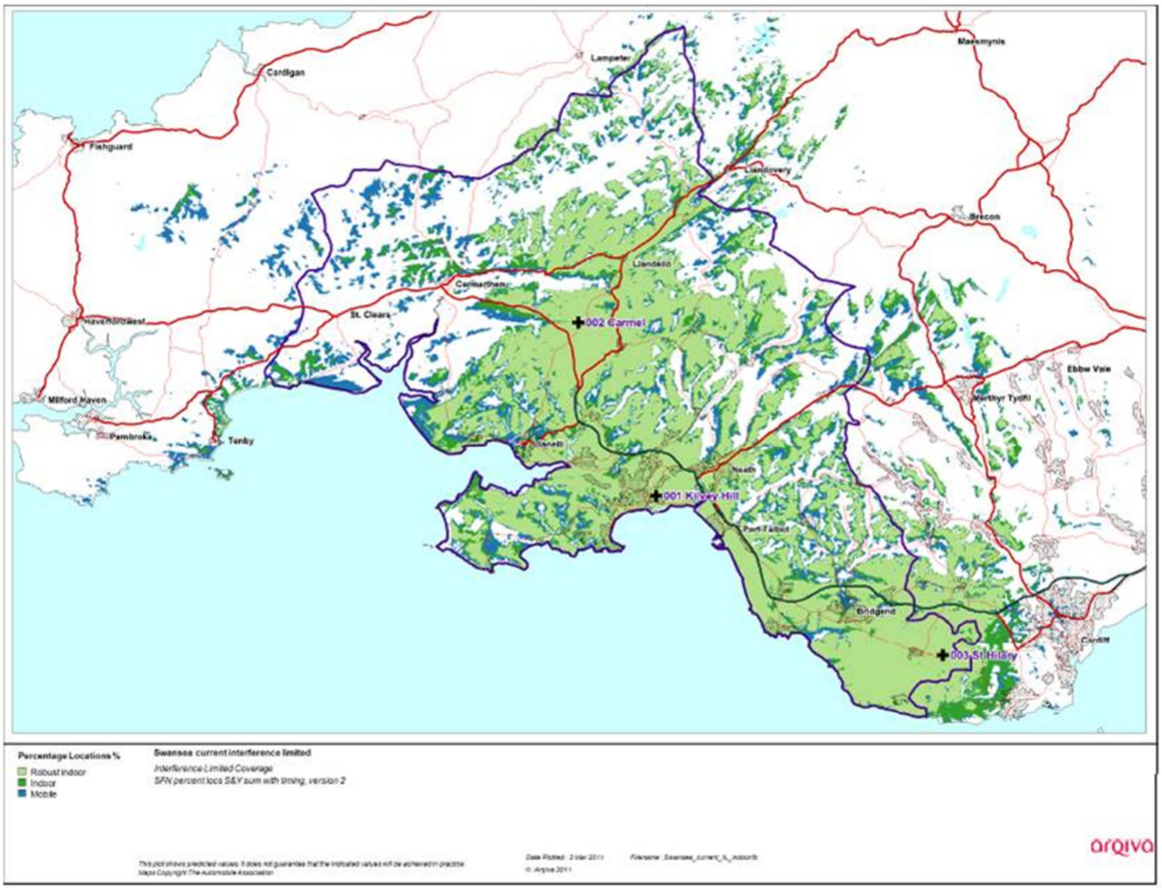


12.20 Coverage of this multiplex may improve in future, as the UK Government has indicated that we will be given the power to extend the coverage area of local multiplexes into unserved areas without having to award new licences. This would enable the Cardiff multiplex to be extended to include the south Wales valleys, an area not currently licensed to be served by a local DAB multiplex.

Swansea Multiplex

12.21 The Swansea multiplex is operated by UTV–Bauer Digital and carries local stations including The Wave and Swansea Sound along with BBC Radio Cymru and BBC Radio Wales. It provides services to 73.79% of households in the editorial area.

Figure 12.6 - Swansea Multiplex



Severn Estuary

12.22 South Wales is also served by the Severn Estuary regional commercial DAB multiplex (which also broadcasts to the West of England). This multiplex, operated by MXR, carries the following programme services: Kiss Radio, Heart, Capital FM, Real Radio, Mountain FM, LBC, Bay Radio and Nation Radio. It does not have a must carry obligation for BBC services.

Figure 12.7 – Severn Estuary Multiplex

North Wales

12.23 In February 2007, we advertised a local commercial DAB multiplex for North East Wales and West Cheshire, including Wrexham and Chester, and in September 2007 announced its award to MuxCo Northeast Wales and West Cheshire Limited. The key shareholders in this bid include Town and Country Radio, and UTV.

12.24 We estimate that this licence could achieve coverage of an area with an adult population of around 647,000 (of which 231,000 are based in North East Wales). The multiplex was due to start broadcasting in late summer 2008 but due to the commercial uncertainty surrounding the development of the DAB platform, the group informed us that it had postponed its roll-out plans.

12.25 On 24 August 2008, we announced the award of a DAB multiplex licence for the rest of North Wales to the only applicant, MuxCo North Wales. The multiplex covers the area not already served by the north east Wales and west Cheshire multiplex, including the counties of Gwynedd, Anglesey, Conwy and most of Denbighshire (with estimated coverage of up to 311,146 adults within the licensed area). This multiplex will also have capacity reserved for BBC Radio Wales and BBC Radio Cymru.

12.26 However, the timing of the service roll out is conditional on the Republic of Ireland releasing frequencies in VHF Band 3, currently used for analogue television, but which are used in the UK for DAB radio. The achievable coverage of the North Wales service may therefore be significantly constrained until June 2015 under the terms of international spectrum agreements, although this limitation may be lifted sooner as switchover in the Republic of Ireland is expected to occur during 2012.

Figure 12.8 - DAB Coverage – North Wales

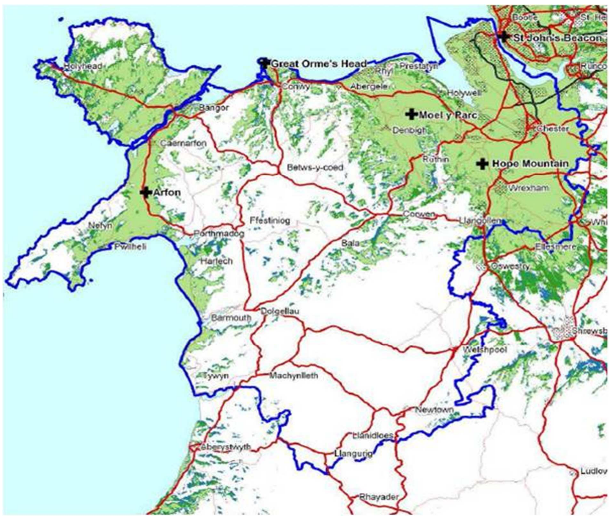


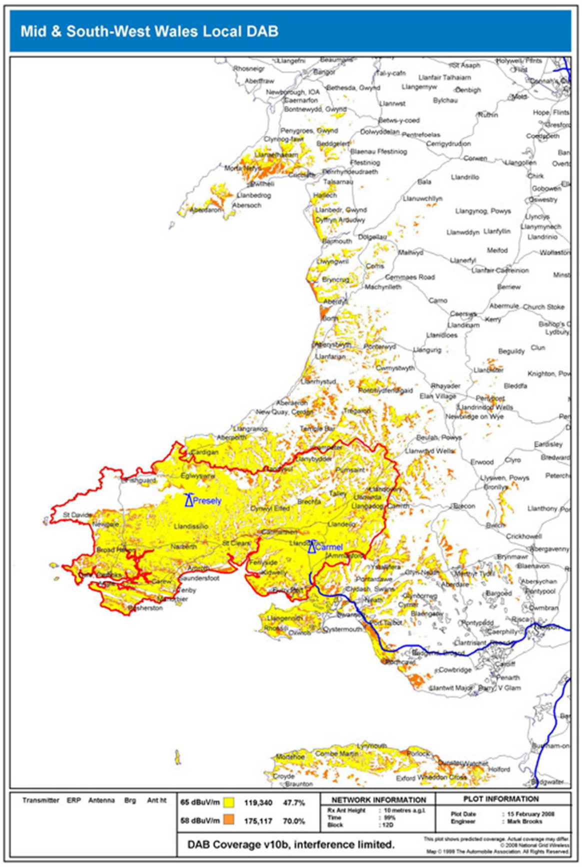
Figure 12.9 - Planned DAB Coverage – North Wales

Mid & West Wales

12.27 In November 2007, we advertised a local DAB radio multiplex licence to cover Mid and West Wales. Originally this multiplex had been planned to cover Pembrokeshire and Carmarthenshire (reaching an adult population of up to 234,000), but it was extended to cover Ceredigion and Powys (potentially reaching up to 400,000 listeners) to enable provision of Radio Wales and Radio Cymru across as much of Wales as possible.

12.28 By the closing date of 20 February 2008, we had received one application, from MuxCo Wales Ltd., which is 70% owned by Town and Country Broadcasting. The company proposes to provide Radio Pembrokeshire, Radio Carmarthenshire, BBC Radio Wales and BBC Cymru, on this multiplex, and with an estimated 'outdoor' coverage of 55.8% of the adult population of the licensed area (reaching around 220,000 listeners).

Figure 12.10 - Planned DAB Coverage – West Wales



Extending Coverage

12.29 DAB technology continues to be significantly more expensive than analogue and in business operating terms, it favours economic models based on transmission to densely populated areas.

12.30 However, in response to concerns expressed by The Welsh Government, the BBC Trust’s Audience Council for Wales) and our Advisory Committee for Wales, regarding the coverage of Radio Wales and Radio Cymru on DAB, we have, in recent years, prioritised the advertising of local commercial multiplexes for other parts of Wales.

12.31 Furthermore, the UK Government has indicated that we will be given the power to extend the coverage area of local multiplexes into unserved areas without having to award new licences.

12.32 For example, this would enable the Cardiff multiplex to be extended to include the South Wales Valleys, an area not currently licensed.

Digital Radio Action Plan

12.33 In March 2011, the UK Government published a Digital Radio Action Plan (DRAP), the purpose of which is 'to provide the information to allow for a well-informed decision by the UK Government on whether to proceed with a radio switchover'. We have been asked to chair a DAB coverage and spectrum planning group to 'determine the current level of FM coverage and develop a range of options to increase DAB coverage to match FM'.

12.34 In June 2011, we published a consultation which sets out our proposed approach to that task. In particular:

- Defining the areas within which we aim to replicate on DAB, as far as practicable, the editorial coverage of existing FM radio services (we call these 'editorial areas');
- The underlying technical assumptions used to predict acceptable levels of FM and DAB coverage for indoor portable and in-vehicle radio reception;
- The extent of existing FM coverage within each editorial area, for indoor portable radios and for in-vehicle radios on major roads; and
- A study investigating the feasibility of different radio switchover scenarios illustrating, from a broadcast network perspective, how increasing levels of coverage can be achieved using increasing numbers of transmitters.

Our proposed approach to increasing DAB coverage

12.35 For the BBC UK national multiplex, the BBC has carried out its own planning, based on the same criteria as we are using for local coverage. This planning so far consists of three phases: existing coverage, coverage by the end of 2011, and 97% population as required by the current licence fee settlement. Further transmitters may be required to match fully existing FM coverage, both variable indoor and in-vehicle. The BBC's nations' services are expected to be carried on all of the local multiplexes in each nation, together covering the whole of the relevant nation.

12.36 The operator of the national commercial multiplex, Digital One, has provided a plan to match the coverage of Classic FM.

12.37 For the local multiplexes, we have planned for increasing DAB coverage within each editorial area in four stages for both indoor and road coverage:

- Existing coverage;
- Modifying existing transmitters to improve coverage (Scenario 1);
- Adding transmitters in diminishing order of coverage benefit, to a point which approximates existing FM coverage (Scenario 2); and
- Continuing to a point where additional transmitters add negligible amounts of coverage and become potentially uneconomic to build (Scenario 3).

12.38 Because of the way FM reception fades gradually compared to DAB, the standard we have set for DAB coverage is far higher than for existing FM. For example, the criterion we have used for road coverage for FM is that any 100m square is regarded as served if reception is available at 50% of locations within that square for 95% of the time. For DAB we have used 99% of locations for 99% of the time.

12.39 Our plans suggest that good DAB indoor coverage can be built to match good FM coverage, even using our very cautious DAB planning assumptions. For roads, our strict measure of good DAB coverage shows lower coverage than good FM, but there are indications that successful in-vehicle DAB reception may not require coverage planned for such a high percentage of locations. Our estimates suggest that even a minor relaxation in the assumptions (to 95% of locations for 99% of the time) would increase coverage by up to ten percentage points. This, together with other possible changes such as further frequency changes, give us confidence that DAB road coverage can be built to match FM.