



Local commercial analogue radio licence durations

Consultation

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Section 1

Executive Summary

- 1.1 When Ofcom advertises a local commercial analogue radio licence, or re-advertises one near its expiry date, it must set the duration for the licence, and this can be up to 12 years.
- 1.2 Our current policy is that this duration should be seven years for re-advertised licences¹. In setting this policy in 2010, we took account of a number of factors including the need for flexibility, the incentives for operators of radio services to be on the analogue and digital radio (DAB) platforms, and the need for services to be viable. Our rationale was that seven years would be sufficient for viability, whilst retaining flexibility for future radio policy developments, and not providing incentives for services to come off DAB.
- 1.3 We said at the time that we expected “to review this policy should the Secretary of State nominate a date for digital switchover or in the event of other significant radio policy developments”².
- 1.4 We are now considering whether the current policy of seven year licence durations remains appropriate in light of the Minister’s statement in December 2013 setting out a package of new measures for DAB, in particular the funding arrangement between Government, the BBC and the owners of radio multiplex licences in relation to the continued expansion of DAB coverage; and the Government’s conclusion that, in light of progress against benchmarks on listening and coverage “now is not the time to switchover”. We have also considered the extent to which the development of the DAB platform since 2010 might cause us to revisit the decisions taken in 2010.
- 1.5 As set out in our consideration of policy options in 2010, we remain of the view that the four relevant criteria to consider any policy against are still flexibility, viability, the effects on competition for licences, and the incentives any licence duration provides for services providers considering which platforms to go on to.
- 1.6 Those policy options are:
 - Option 1: Setting a common end date for re-advertised licences, returning to the issue if and when there was greater certainty about a specific switchover date and the regulatory regime that would be in place after such an event;
 - Option 2: Offering the maximum duration of 12 years for all re-advertised licences;
 - Option 3: Choosing a different fixed length (of less than 12 years) for all re-advertised licences; and
 - Option 4: Adopting a differential approach, where licences are offered for different durations based on a pre-determined set of criteria (such as previous DAB renewal, for example).

¹ http://stakeholders.ofcom.org.uk/binaries/consultations/local-licence-duration/statement/LARA_Statement.pdf

² Ibid, 1.18

- 1.7 For the reasons set out in 2010, we do not consider that Options 1 and 4 are appropriate. Each of the options would lead to a differential approach to different types of service and we have not identified a single set of criteria which might ensure that such a policy could be implemented fairly and effectively. We are therefore proposing a single duration for all re-advertised licences.
- 1.8 Our previous analysis suggested that a duration of less than five years would risk service operators not being able to make a return on their investment. Because of this, and because the current policy is seven years, we are considering two options: a seven year duration for licences, or the 12 year statutory maximum.
- 1.9 In December 2013, the Government announced some developments in digital radio policy, including plans to improve DAB coverage, extend the range of services both nationally and at a small scale, and measures to increase consumer confidence. Government has not indicated that it wishes to consider any alternative licensing regime for stations that may stay on FM after any switchover.
- 1.10 There have also been market developments since our 2010 decision: DAB is a significantly more widely adopted technology now, with greater availability of a greater number of services; more DAB sets in homes and cars; and more listening to DAB in terms of both reach and share. The trends since 2010 and going back further, plus the recent policy announcements by Government, suggest that there will be sustained growth and development of the DAB radio platform.
- 1.11 We consider that these developments will reduce the need for flexibility for Government, Parliament and Ofcom in introducing new licensing regimes or spectrum planning for the FM band, since it now seems that these would not be necessary, post-switchover.
- 1.12 The expansion of the DAB platform since 2010, with new services and increased listening, also offers additional commercial incentives for operators to provide DAB services, and therefore reduces the need for the licensing regime to incentivise the provision of DAB services.
- 1.13 We have not identified any evidence which would affect the analysis carried out in 2010 in respect of the viability of stations, which found that that licence periods of less than 5 years might significantly influence the commercial viability of broadcasters and therefore it was appropriate to give licensees greater certainty than that. We are therefore inviting stakeholders to put forward any evidence on the extent to which stations are more, or less, viable in the current economic climate.
- 1.14 As considerations of flexibility and incentives are less important now than in 2010, we do not consider that such factors continue to justify a licence period of less than the statutory maximum. Whilst those factors justified a shorter licence duration in 2010, we consider that market and regulatory developments since that time are such that a seven year policy can no longer be justified and we have not identified any further factors which might justify a shorter licence period than the statutory maximum. As a longer licence period would provide greater commercial certainty for operators, we are proposing a new policy that licence durations will be set at 12 years.

Section 2

Background

Local commercial analogue radio licence durations and digital radio switchover

- 2.1 Ofcom is responsible for the licensing of local commercial analogue radio stations. This includes re-advertising, re-awarding and renewing licences, if appropriate, in accordance with relevant legislation³.
- 2.2 When Ofcom advertises a local commercial analogue radio licence, or re-advertises such a licence when it nears its expiry date, it can set the licence duration at up to 12 years.
- 2.3 From 8 April 2010, where an existing licensee also provides a service on a relevant DAB multiplex, it is eligible for an uncontested renewal of its analogue licence for a period of up to seven years⁴.
- 2.4 Ofcom has discretion over the duration of re-advertised local commercial analogue radio licences, subject to the 12 year statutory maximum, and has previously published its policy on the appropriate duration of such licences. Ofcom last reviewed its policy on the duration of re-advertised local commercial analogue licences in 2010 following the enactment of the Digital Economy Act 2010 (“the 2010 Act”) which introduced changes to the way commercial radio is regulated, in particular, to:
- allow the Secretary of State to nominate a date for digital switchover of certain services;
 - require Ofcom to vary the length of relevant licences once such a date is specified so that they end on that date; and
 - allow licensees who offer digital services on a relevant DAB multiplex to renew their analogue services for a further seven years.
- 2.5 Ofcom therefore set out a new policy on the duration for licences that are re-advertised and re-awarded. This followed a consultation⁵ (“the 2010 Consultation”) that set out a number of options, including five, seven and 12 years. Ofcom subsequently issued a statement (“the 2010 Statement”) that the duration should be seven years⁶.
- 2.6 In reaching this conclusion, Ofcom took account of a number of factors, in particular the need for flexibility, given the uncertainty at the time of publishing the 2010 Statement around the future direction of the sector, and digital radio switchover in particular.

³ There is a summary of the statutory framework in Annex 6.

⁴ Licences granted before 8 April 2010 may be renewed for a period of 12 years and further renewed for up to 7 years.

⁵ <http://stakeholders.ofcom.org.uk/binaries/consultations/local-licence-duration/summary/local-licence-duration.pdf>

⁶ http://stakeholders.ofcom.org.uk/binaries/consultations/local-licence-duration/statement/LARA_Statement.pdf

- 2.7 Ofcom stated that it expected “to review this policy should the Secretary of State nominate a date for digital switchover, or in the event of other significant radio policy developments (such as Government setting out proposals for any new regulatory regime)”⁷.
- 2.8 On 16 December 2013, the Minister for Culture, Communications and Creative Industries outlined a package of measures that will provide more people with access to digital radio and told the Go Digital Conference that while great progress had been made in rolling-out digital radio, we needed to continue improving the service before a decision can be taken to switchover⁸.
- 2.9 Government has not indicated that it wishes to see any changes to the licensing regime for those stations which may stay on FM after any switch-over.
- 2.10 In light of the Minister’s statement and other recent developments, set out in more detail in section 3, Ofcom is now considering whether its policy on licence durations remains appropriate

⁷ 1.18

⁸ <https://www.gov.uk/government/news/more-listeners-to-get-digital-radio-choice>

Section 3

Policy proposals

Our approach

- 3.1 The 2010 Consultation considered a number of options for licence duration and set out an impact assessment of each option before reaching a conclusion on the appropriate duration. In doing so, we considered a variety of factors which might be affected by particular licence durations.
- 3.2 Our approach in this consultation is to reconsider the factors identified in the 2010 Consultation in light of developments since that time and to update the impact assessment carried out in 2010.

Policy options we considered in 2010

- 3.3 The 2010 Consultation⁹ set out four main options for setting the duration of re-advertised and re-awarded licences:
- Option 1: Setting a common end date for re-advertised licences, returning to the issue if and when there was greater certainty about a specific switchover date and the regulatory regime that would be in place after such an event;
 - Option 2: Offering the maximum duration of 12 years for all re-advertised licences;
 - Option 3: Choosing a different fixed length (of less than 12 years) for all re-advertised licences; and
 - Option 4: Adopting a differential approach, where licences are offered for different durations based on a pre-determined set of criteria (such as previous DAB renewal, for example).

Criteria to consider

- 3.4 In the 2010 Statement¹⁰, we decided that local commercial radio licenses which are re-advertised and re-awarded would be granted for a period of seven years. In reaching this conclusion, we identified a set of criteria that we used to assess the impact of the policy options on different stakeholders.
- 3.5 These criteria were:
- Flexibility – we highlighted that we needed to take into account the possibility of changes to the regulatory framework for commercial radio in the future. Certain approaches to licence duration would give us greater flexibility to maximise benefits to citizens and consumer by securing the optimal use of the spectrum, or maximising flexibility for Government and Parliament to set an appropriate

⁹ <http://stakeholders.ofcom.org.uk/binaries/consultations/local-licence-duration/summary/local-licence-duration.pdf>

¹⁰ http://stakeholders.ofcom.org.uk/binaries/consultations/local-licence-duration/statement/LARA_Statement.pdf

regulatory regime for stations remaining on analogue bands after digital switchover.

- Viability – we noted that a licence has to offer applicants the opportunity to make a reasonable return on their investments to ensure that operators are prepared to apply for the licence and can maintain provision of a service. We noted that any decision on licence duration could have an effect on the financial viability of stations and therefore the variety of services available to listeners. The 2010 Consultation included an annex with a more detailed assessment of the impact licence duration might have on capital investment, business contracts and recouping initial start-up costs. We also recognised that the exact relationship between licence duration and the viability of a station is unclear. It may be that there is a linear relationship between the two – the prospect of viability for a station becomes ever more likely as licence length increases. Alternatively, given the lifespan of certain assets which need to be replaced, it may be that there is a particular licence length at which a station becomes viable, and allowing a longer licence duration does not significantly affect this.
- Competition for licences – to secure the best range of local commercial radio services, it is useful to have a broad choice of proposed services from which to select a licensee (i.e. competition for licences). In our view, there is likely to be a trade-off between setting a licence duration long enough to encourage a number of applicants for a re-advertised licence, and one short enough to afford regular opportunities for the competitive selection process. Additionally, licence duration is likely to have some effect on the purchase of stations (another form of competition for licences), as it will affect the attractiveness of existing stations to potential buyers
- Incentives – we noted that the length of a licence may change radio stations' incentives to offer DAB services, having a knock-on effect on consumer choice. DAB digital radio is currently the only platform which offers the benefits of digital radio free-to-air, to mobile and portable receivers, and which can guarantee a range of local and UK-wide services to the vast majority of the UK. Because of these consumer benefits, we have previously stated that it is important to put in place the conditions to allow DAB digital radio to expand and thrive in the digital age¹¹. The duration of a re-advertised analogue licence might distort the incentives of a number of stations which also provide a DAB service and are eligible for the new seven year renewal under the 2010 Act. For instance, offering re-advertised licences for a period significantly longer than seven years might incentivise operators to opt for re-advertisement rather than a renewal. As a consequence they might withdraw their provision of DAB services.

3.6 Ofcom's objectives in this area remain as outlined in the 2010 Consultation¹². Our principal general duties – to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition – are key considerations in assessing the impacts of our proposals.

3.7 Having due regard to these duties and others set out in legislation¹³, our objective is to ensure that there is a range and diversity of local commercial radio services

¹¹ For example, see paragraph 5.76 of Radio – Preparing for the Future, Ofcom, 19 October 2005, http://stakeholders.ofcom.org.uk/binaries/consultations/radio_review2/p2.pdf

¹² See in particular 4.4 to 4.6,

¹³ See Section 3, Statutory Framework

available, serving the interests of consumers and citizens. We aim to determine an appropriate approach to the duration of re-advertised licences to support this objective.

- 3.8 We also have due regard to our key statutory duty of securing the optimal use of the radio spectrum to promote the interests of citizens and consumers. It may be that at some point in the future the optimal use of the VHF Band II and medium wave spectrum is for other applications, rather than for radio broadcasting services, and our assessment below takes this into account.
- 3.9 Also, to secure the best range of local commercial radio services, it is useful to have a broad choice of proposed services from which to select a licensee (i.e. competition for licences). At the same time, in order to attract operators to apply for licences in the first place there needs to be the opportunity for them to make a commercial return on their investment. Licence duration may affect both of these factors. We also need to consider how our policy may change radio stations' incentives to offer DAB services and the consequent effect it may have on consumer choice. And we need to take into account how licence duration may constrain the Government's flexibility to make changes to the regulatory framework in the future.
- 3.10 These considerations informed our selection of the four criteria above when we previously examined this issue. In examining new policy options, we remain of the view that these are the right considerations, and thus the criteria set out above are the most relevant for the purposes of assessing the impacts of any proposals.

Developments since 2010

- 3.11 There have been a number of developments since 2010 which are relevant to a consideration of the appropriate policy in this area, both at policy level and at market level. In the following sections, we consider the effect of those developments on the four criteria set out in 3.3 above.

Policy developments

- 3.12 The Government's digital radio policy is a significant factor relevant to the first and last criteria listed above: the need for flexibility on the part of both Ofcom and Government in the event of a radio switchover decision; and the consideration of incentives upon radio broadcasters in relation to their decisions to go on different platforms, particularly DAB. Since 2010, the developments in the Government's digital radio policy may be summarised as follows.
- 3.13 The Government's Digital Radio Action Plan has resulted in work being undertaken in a number of areas with the common goal of improving the coverage and take-up of DAB with a view to a potential future switchover to digital-only transmission for many existing BBC and commercial radio services.
- 3.14 In a policy report entitled *Connectivity, content and consumers: Britain's digital platform for growth*¹⁴ published in July 2013, the Government set out some further details regarding its digital radio policy, including the criteria it would seek to apply when determining which radio stations would have the option of remaining on FM after a radio switchover

¹⁴ <https://www.gov.uk/government/publications/connectivity-content-and-consumers-britains-digital-platform-for-growth>

3.15 In December 2013, the Government said that there was still more to do before the transition to digital could be completed, and announced the following package of measures¹⁵:

- *“Up to £21m of new investment from the BBC, Government and commercial radio to build out digital radio coverage, so more homes can receive it;*
- *Government funding for Ofcom to develop ways for smaller radio stations to go digital;*
- *Ofcom will during 2014 advertise the licence to build and run a second national DAB multiplex to allow new national commercial stations to launch;*
- *A new partnership is being formed between Digital Radio UK (DRUK) and the Driver and Vehicle Licensing Agency as well as the Driver and Vehicle Standards Agency to provide people with information on upgrading their car radio to digital;*
- *Ofcom will review music format rules to see if these can be relaxed to give industry greater freedom to adapt to changing consumer tastes and to ensure competition;*
- *DRUK will speak to industry about taking forward the Digital Certification Mark scheme to signpost consumers to digital radios that meet a minimum specification – giving them greater assurance on the product they are buying, and;*
- *DRUK will also speak to industry about extending this scheme to in car digital radio installers– so when upgrading their car radio to digital, consumers will know that the person responsible for installing it knows what they’re doing.”*

3.16 The Government also considered progress against benchmarks on listening and coverage and concluded that “now is not the time for switchover”. We do not therefore anticipate that a decision on a date for digital switchover for radio is likely to be forthcoming in the near future.

Market developments

3.17 The Government launched its Digital Radio Action Plan in July 2010 and Ofcom was asked in the Action Plan to publish an annual report on the availability and take-up of digital radio services. Ofcom’s annual Digital Radio Reports¹⁶ include data on relevant metrics and, in this consultation, we have considered progress since 2010 in respect of:

- DAB coverage;
- Take-up of DAB radio sets;
- Number of services available on DAB; and

¹⁵ <https://www.gov.uk/government/news/more-listeners-to-get-digital-radio-choice>

¹⁶ Most recent version is the 2013 report at: http://stakeholders.ofcom.org.uk/binaries/research/radio-research/drr-13/2013_DRR.pdf

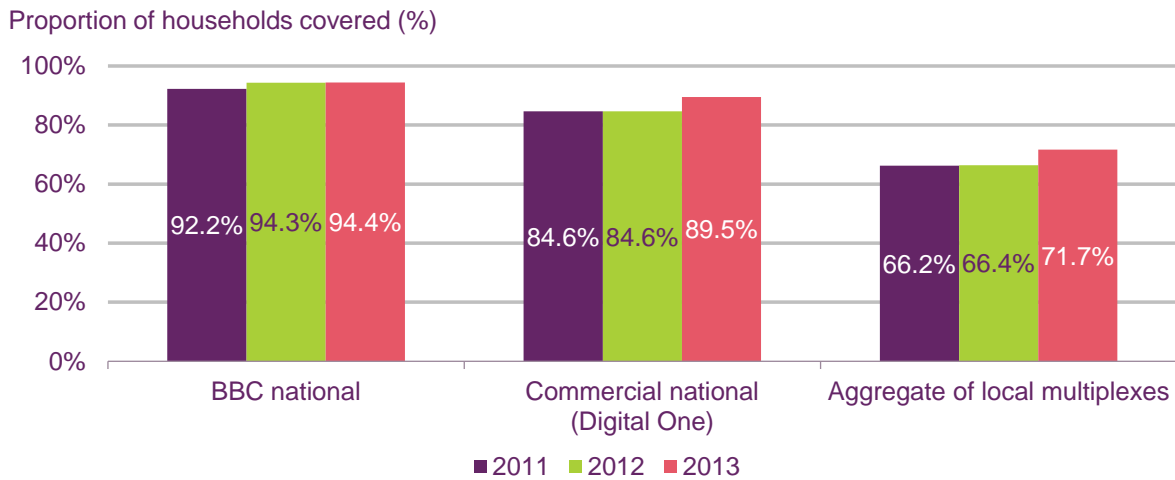
- Digital radio consumption.

(i) DAB coverage

3.18 DAB coverage comprises the proportion of households covered by the BBC national DAB multiplex, by Digital One (the national commercial DAB multiplex), and the aggregate covered by the local DAB muxes (which carry both BBC and commercial services).

3.19 The availability of DAB coverage has increased in all three categories since 2010. (Figure 1.)

Figure 1 Availability of DAB Radio

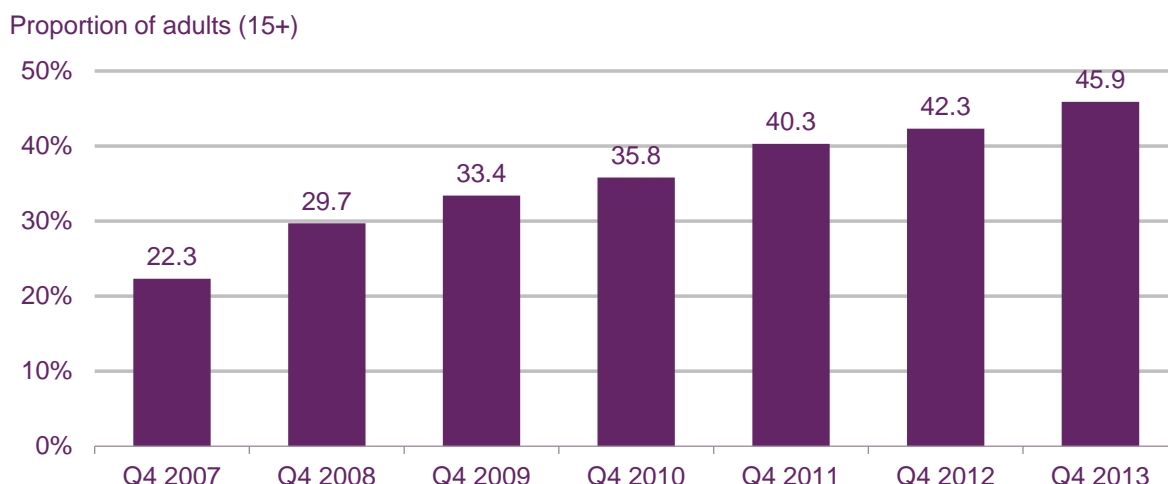


Source: Ofcom

(ii) Take-up of DAB radio sets

3.20 Take-up of radio sets capable of receiving DAB continues to grow and reached 45.9% in Q4 2013. Over the past 4 years this represents an increase of 10 percentage points. (Figure 2.)

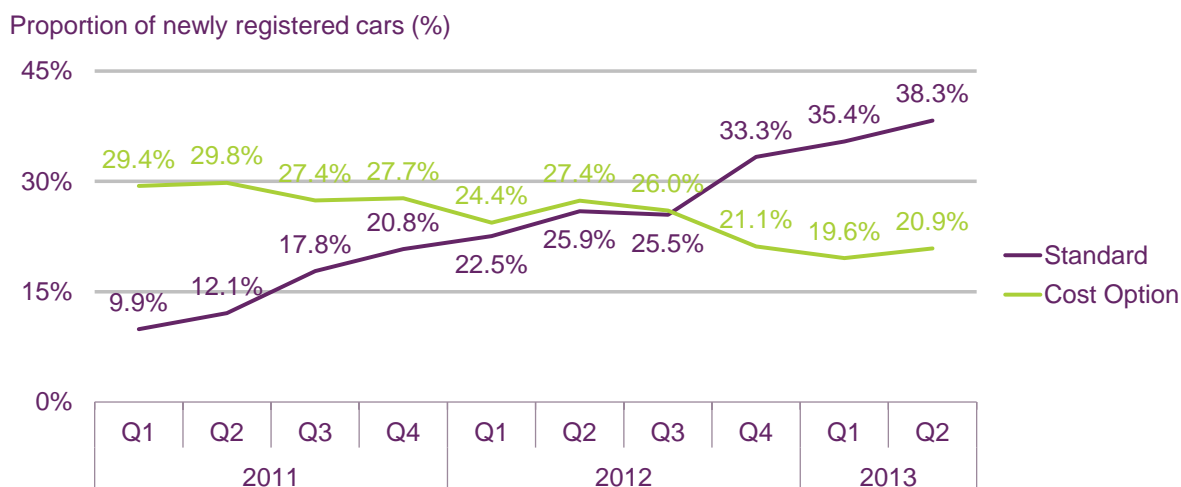
Figure 2 Proportion of individuals claiming to own a DAB set in the home



Source: RAJAR / Ipsos MORI / RSMB

3.21 More new cars now come with DAB fitted as standard. In Q2 2013, almost four in ten newly registered cars were fitted with DAB as standard. A further two in ten had DAB available as a cost option. (Figure 3.)

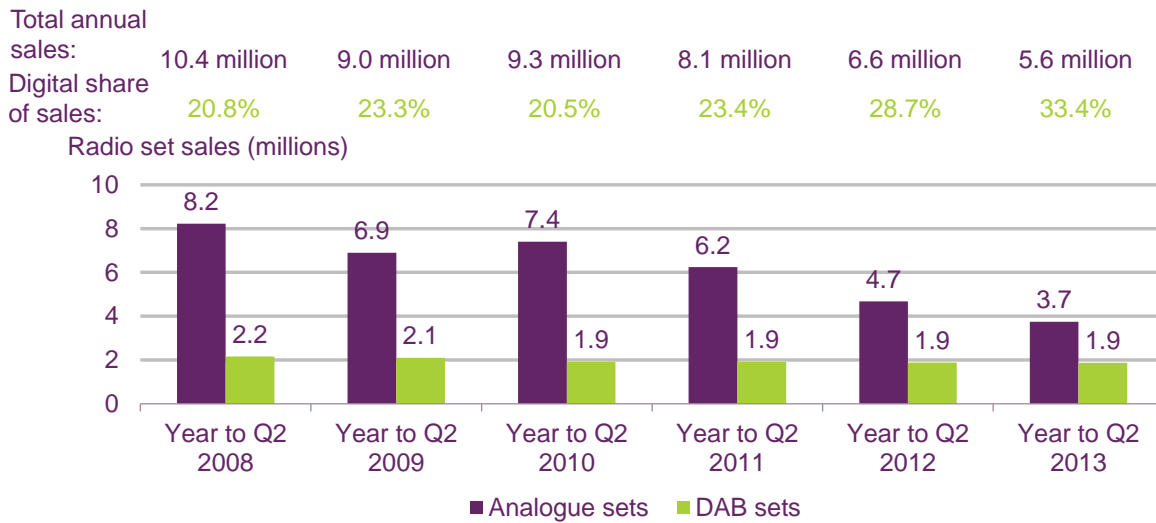
Figure 3 Status of digital radio availability in newly registered cars



Source: CAP/SMMT

3.22 Sales of DAB sets have remained stable at 1.9 million each year for the past four years, while the number of analogue only sets has fallen significantly. Of the 5.6 million radio sets sold in the 12 months to Q2 2013, one-third of these were DAB sets. (Figure 4.)

Figure 4 Number of analogue and digital radio sets sold



Year to Q2, 2008-2013. Source: GfK sales data

Note: Figures cover GB only, GfK Panelmarket data represents over 90% of the market. Categories of device included are; portable radios, personal media players, car audio systems, home audio systems, clock radios, radio recorders, headphone stereos, tuners and receivers.

(iii) Number of services available on DAB

3.23 Between 2010 and 2013, the number of stations available on DAB has increased. In 2013, 212 stations were broadcasting on DAB, of these, 50 were available on DAB only.

Figure 5 Number of services available on analogue and digital radio platforms

	2007	2008	2009	2010	2011	2012	2013
Radio**-analogue services	438	485	513	510	545	536	553
Radio simulcast on DAB	129	133	178	146	156	167	162
Radio - DAB only	40	38	38	46	53	52	50

Source: Ofcom.

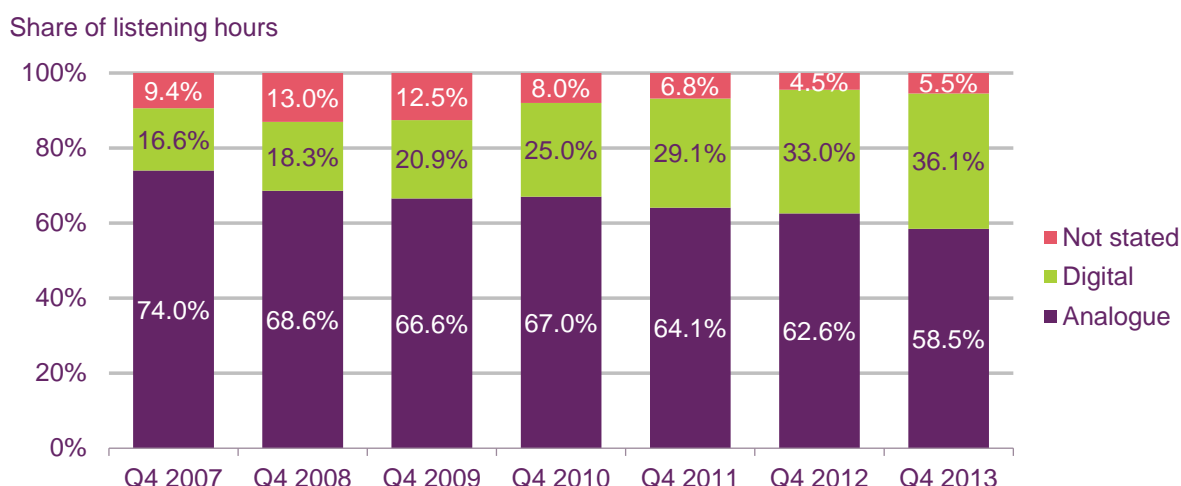
**Not all radio stations are available to all listeners.

(iv) Digital radio consumption

3.24 The two key metrics for DAB digital radio consumption are share of radio listening and reach of DAB digital radio. (Reach represents the proportion of the UK population who have listened to DAB in an average week.)

3.25 In terms of digital/analogue share of listening, the share of listening hours attributable to digital platforms has risen over 10% since 2010, from 25% to 36.1%. (Figure 6.)

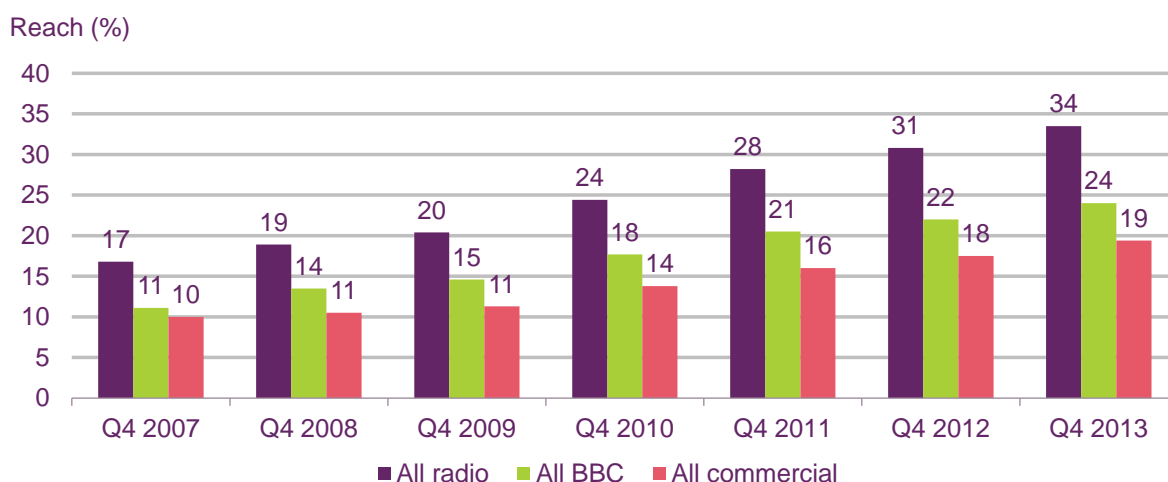
Figure 6 Digital / analogue share of listening



Source: RAJAR, all adults (15+), data refers to quarter indicated

3.26 DAB digital radio reach has also increased by ten percentage points, from 24% in 2010, to 34% last year. (Figure 7.)

Figure 7 Reach of radio via DAB, by commercial and BBC



Source: RAJAR, all adults (15+), data relates to quarter indicated

3.27 In summary, looking at market developments, DAB is a significantly more widely adopted technology than it was in 2010, with greater availability of a greater number of services; more DAB sets in homes and cars; and more listening to DAB in terms of both reach and share.

3.28 The trends we have described here, since 2010 but also going back further, suggest that its adoption will continue to increase. Considering this together with the specific policy interventions recently announced by Government, which will improve the range of DAB services and their coverage, it seems very likely that there will be sustained growth and development of the DAB radio platform.

The effect of recent developments

- 3.29 We have considered the effect of recent developments on the validity and weight to be afforded to the criteria identified in the 2010 consultation as follows.

Flexibility

- 3.30 The primary aim of the application of the flexibility criterion was to ensure that Ofcom was able to maximise benefits to citizens and consumers by securing the optimal use of the spectrum and that the Government and Parliament were able to set an appropriate regulatory regime for stations remaining on analogue post switchover.
- 3.31 The Government funding ‘*for Ofcom to develop ways for smaller radio stations to go digital*’ (noted in the DCMS announcement at 3.22 above) will fund further technical investigations following Ofcom’s small scale DAB trial recently conducted in Brighton¹⁷; these are designed to inform spectrum re-planning work to accommodate small scale services on DAB. It will also fund work on possible licensing regimes for small scale services in DAB. These pieces of work will then inform a future consideration by DCMS of a new regulatory regime for small scale services on DAB.
- 3.32 Thus, Ofcom’s understanding is that the likely policy approach will be to accommodate small services on DAB, and that any services remaining on FM post-switchover will do under the current statutory and spectrum framework. There has been no suggestion of a new regulatory regime for services on FM being necessary post-switchover, which was anticipated in 2010.
- 3.33 Consequently, there is less need to ensure flexibility in the ability of Government and Parliament to introduce a new licensing regime for post-switchover analogue stations. The measures taken in respect of small stations on DAB should address the concerns identified in 2010 and, consequently, we consider that we should place less weight on this criterion in assessing the appropriate options for licence duration.

Incentives

- 3.34 In 2010, we noted that the Digital Economy Act 2010 introduced an incentive mechanism offering a guaranteed seven year analogue licence renewal to stations which also provided a DAB service. (The DAB service provided need not be a simulcast of an FM service, although most are.) We recognised that the duration policy for re-advertised or re-awarded licences might affect those incentives if the automatic renewal offered little more than stations might otherwise have obtained in any event.
- 3.35 These incentives are relevant to our decision since DAB offers a range of consumer benefits such as greater functionality of receivers, and also a greater range of services (due to FM capacity constraints), and we considered it important to put in place the conditions which would allow DAB to expand and thrive. We therefore considered the extent to which particular licence durations might affect the incentives of stations to broadcast on DAB so as maintain and to broaden the number and range of DAB services available to consumers.
- 3.36 Since 2010, there has been an increase in the number of DAB listeners, increased coverage, penetration of receivers and other initiatives such as in-car conversions to

¹⁷ <http://stakeholders.ofcom.org.uk/market-data-research/other/radio-research/Software-DAB-Research/>

provide new commercial incentives to stations to broadcast on DAB and to continue to do so.

- 3.37 Moreover, the possible move of small scale services onto DAB and a new national digital radio multiplex are likely to result in a greater range of services available in the market as a whole.
- 3.38 In light of these considerations, Ofcom's policy on analogue licence durations is less likely to affect the number and range of services available on DAB since on one hand, new commercial incentives for stations to broadcast on DAB will mean less need for the incentive mechanism, if the provision of DAB services is an attractive commercial proposition of itself. At the same time the range of services available, one of the considerations behind this criterion of initiatives, is anticipated to increase for other reasons. We will therefore give this criterion less weight in assessing the options.

Competition

- 3.39 Our analysis in 2010 considered whether the particular options put forward might have an effect on the competitive selection process for the award of licences so as to ensure the broadest choice of services for listeners.
- 3.40 The 2010 Statement concluded that the effect on competition for licences of the various options was unclear. Consequently, we were not able to make a comparison of whether the relative impact of the different licence durations would be positive or negative. We identified a trade-off between setting a licence duration long enough to encourage a number of applicants for a re-advertised licence, and one short enough to afford regular opportunities for the competitive selection process but were not able to say with any certainty whether there would be any material difference between licence periods of seven or 12 years in this respect.
- 3.41 We do not consider that any of the developments since 2010 have an effect on this criterion and have not been presented with any new evidence on this point. Consequently, we remain unable to make a comparison of whether the relative impact of different licence durations would be positive or negative. We would welcome any new evidence, for example any industry developments which could allow us to make an assessment of the impact of different licence durations on the competitive selection process for the award of licences.

Viability

- 3.42 The analysis in 2010 included an assessment of the impact of different licence durations on capital investment, business contracts and recouping initial start-up costs. It recognised that the exact relationship between licence duration and viability was unclear but particularly short licence durations might have a damaging effect on the ability to finance a station and the ability for operators to generate a reasonable return on investment. It concluded that licence periods of less than 5 years might significantly influence the commercial viability of broadcasters and therefore it was appropriate to give licensees greater certainty than the 5 year policy in place at the time.
- 3.43 We have not identified any new evidence on this point which might call into question our conclusions in the 2010 Statement but would welcome stakeholders' views as to whether there have been any relevant developments which might affect the period over which operators might expect to recoup their investments.

Options we are now considering

- 3.44 The 2010 Statement set out our view that, on the basis of our analysis and respondents' submissions, for Option 1 (a common end date), the benefits of such an approach would be unlikely to outweigh the disadvantages. Given the differing dates on which licences were granted and therefore differing dates on which they might be re-awarded, a common end date would result in the award of licences of differing duration. We considered that setting different licence durations for re-awarded commercial analogue radio licences, would be neither fair nor consistent. We did not therefore propose to adopt such an approach.
- 3.45 The 2010 Statement also set out our view that that Option 4 (a differential approach) would not be appropriate since it was not possible to identify a criterion which could be consistently applied and deliver the desired outcome. The diversity of the radio market therefore meant that adopting a different approach between sets of stations was likely to treat some stations unfairly. Accordingly, we did not pursue this Option.
- 3.46 We remain of the view that Options 1 and 4 would not be appropriate outcomes for our policy on commercial analogue radio licence durations. We do not consider that any of the developments which have taken place since 2010 call into question the conclusions of the 2010 Statement in this regard. We are therefore not putting them forward for further consideration in this consultation.
- 3.47 Options 2 and 3 involved consideration of a fixed licence duration of either the full 12 years (Option 2) or a shorter period (Option 3) for all re-advertised licences. In our 2010 Statement we considered the impacts of licence durations of five, seven or 12 years, taking into account the criteria set out at paragraph 3.3 above.
- 3.48 In particular, we decided that the option of licence durations of five years was not appropriate due to the detrimental effect it might have on station viability. This was informed by an analysis of the commercial issues facing radio stations that looked at capital investment, business contracts, and initial start-up activities¹⁸ and concluded that licence periods of less than five years may significantly influence the commercial viability of radio broadcasters, whereas periods greater than five years may give commercial radio stations a better chance of recovering their total expenditure during the licence period depending on the way their business is structured and planned.
- 3.49 When balanced against the flexibility afforded by such a policy, we did not consider that five year licence durations would be justified. As set out at paragraph [XX] above, we have not identified any evidence that would call into question the conclusions of the 2010 Statement with regards to the ability of operators to recoup their investments over a period of five years or less. Consequently, we remain of the view that five years would not be an appropriate duration for a re-awarded licence since it may not provide a sufficient period in which operators are able to recover the investments made. We have not therefore further considered this Option.
- 3.50 We are therefore considering two policy options in this new consultation:
- Option 1: Licence durations of seven years, the current policy; or
 - Option 2: Licence durations of 12 years, the maximum permitted under the legislation.

¹⁸ This is reproduced here as Annex 5, for ease of reference

Updating our impact assessment

3.51 The 2010 Statement summarised Ofcom’s consideration of the comparison between 12, seven and five year licence periods, in the following table (intended to provide an indication of the relative performance of each of the different licence durations rather than an absolute measure). The table serves to illustrate the trade-off between policy flexibility and station viability: while longer licences may increase station viability, they will tend to reduce policy flexibility.

Figure 8 Impact summary (from 2010 statement)

Criteria	5 years	7 years	12 years
Policy flexibility	✓✓	✓✓	✓
Station viability	✓	✓✓	✓✓
Competition for the licences	-	-	-
Incentivises stations to retain DAB services	✓	✓	✗

Note: ‘✓’ means the licence length has a positive impact on the criterion (more ✓’s mean a more positive impact); ‘✗’ means we have a concern (e.g. 12 year licences may significantly change the incentives for radio stations to provide DAB services); ‘-’ means it is unclear whether the impact will be positive or negative.

- 3.52 On this basis, and after considering the responses to the consultation, Ofcom concluded in favour of a seven year licence length, which we considered would provide certainty to broadcasters and allow a sufficient period to earn a reasonable return on an investment, whilst, at the same time, providing the flexibility required by Ofcom, Government and Parliament, and carrying less risk of dis-incentivising stations from providing a DAB service.
- 3.53 Updating the 2010 analysis, we would place significantly lesser weight on considerations of flexibility and incentives, for the reasons outlined above. Those considerations favoured a shorter period for licence durations and in a new analysis, placing less weight on them, the viability of stations becomes a more significant factor in assessing the appropriate outcome.
- 3.54 Our 2010 analysis, as discussed above, did not consider that there was evidence to differentiate between seven and 12 years from a point of view of viability. We set out our view that, whilst 5 years was unlikely to be sufficient to ensure that operators were able to recover investments, it was not clear that there was any significant

difference between a seven or 12 year period. We concluded that seven years was an appropriate period in light of considerations of flexibility since this would be a sufficient period to enable the recovery of investments whilst allowing Ofcom and Government the ability to introduce new regulatory regimes, if appropriate.

- 3.55 In light of our view that flexibility is no longer a consideration of the same significance, we do not consider that it is necessary to limit the licence duration to seven years for this purpose. Consequently, in our view, there is little justification for not granting re-awarded licences for a period of 12 years.
- 3.56 A 12 year period would ensure the greatest benefit to the stations themselves in ensuring their viability and we have not identified any impact on listeners, Government/Parliament or other stakeholders (including other broadcasters) which might justify a shorter licence duration.
- 3.57 On this basis, we are proposing a new policy that licence durations will be set at 12 years.
- 3.58 We are therefore asking the consultation question:

Should Ofcom have a new policy of 12 year licence durations, where local analogue commercial radio licences are re-awarded?

We would welcome any new evidence on the points discussed at 3.49 and 3.55.

Equality Impact Assessment

- 3.59 Ofcom is required by statute to assess the potential impact of all our functions, policies, projects and practices on race, disability and gender equality through the carrying out of an equality impact assessment ("EIA"). EIAs also assist us in making sure that we are meeting our principle duty of furthering the interests of citizens and consumers regardless of their background or identity. We have concluded that it is not appropriate to carry out an EIA in this case since it is not apparent to us that the outcome of the consultation will have any particular impact on race, disability and gender equality.

Annex 1

Responding to this consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on Tuesday 6 May 2014**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeholders.ofcom.org.uk/consultations/local-radio-durations/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email radio.durations@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Local Commercial Analogue Radio Licence Durations
Content Policy Team
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7783 4033
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the question asked in this document, which can be found at 3.53. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

Further information

- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact radio.durations@ofcom.org.uk.

Confidentiality

- A1.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether

all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

Next steps

- A1.11 Following the end of the consultation period, Ofcom intends to publish a statement in May 2014.
- A1.12 Please note that you can register to receive free email Updates alerting you to the publications of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Ofcom's consultation processes

- A1.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A1.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Graham Howell, Secretary to the Corporation, who is Ofcom's consultation champion:

Graham Howell
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA

Tel: 020 7981 3601

Email Graham.Howell@ofcom.org.uk

Annex 2

Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, www.ofcom.org.uk.
- A3.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at www.ofcom.org.uk/consult/.
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

Annex 4

Statutory framework

Ofcom's general duties

- A4.1 Any decision about the policy which Ofcom should adopt on the re-advertisement of local analogue commercial radio licences needs to be based on consideration of Ofcom's statutory duties and responsibilities.
- A4.2 Ofcom has general duties set out in the 2003 Act.
- A4.3 Our principal general duty is set out in section 3 of the 2003 Act. It is to further the interests of citizens in relation to communications matters; and to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- A4.4 To meet this duty Ofcom is required to secure, among other things:
- the optimal use for wireless telegraphy of the electro-magnetic spectrum;
 - the availability throughout the UK of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a variety of tastes and interests; and
 - the maintenance of a sufficient plurality of providers of different television and radio services.
- A4.5 In performing the duty Ofcom must have regard to:
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed; and
 - any other principles appearing to Ofcom to represent the best regulatory practice.

Ofcom's specific duties and functions: local analogue radio

- A4.6 Under section 85 of the 1990 Act, one of Ofcom's functions is the licensing of national, local and community analogue radio stations.
- A4.7 Section 85 requires Ofcom, in performing those functions, to secure the provision of a range and diversity of local analogue services.

Advertisement and renewal of local analogue radio licences

- A4.8 The statutory framework for the advertisement and renewal of local analogue commercial radio licences is set out in Part III of the 1990 Act, which has been modified by the 2010 Act.

Advertisement

- A4.9 Where Ofcom proposes to grant a local analogue licence it must publish a notice inviting applications as set out in section 104 of the 1990 Act.
- A4.10 Where a local analogue licence is due to expire we may instead publish a notice under section 104B of the 1990 Act stating that we propose to grant a further licence and inviting declarations of intent to apply. If we receive a declaration of intent from a person other than the licence holder we must publish a notice inviting applications under section 104. If we receive a declaration of intent from the licence holder and no other person we must invite the licence holder to apply for the licence.
- A4.11 A licence to provide a local analogue service must be for a period of no more than 12 years (section 86 of the 1990 Act).

Renewals

12 year renewal

- A4.12 Before 8 April 2010, a local analogue licence¹⁹ could be renewed on one occasion for a period of 12 years if the applicant nominated a local digital sound programme service provided or to be provided by him and a relevant local radio multiplex service.
- A4.13 After the coming into force of section 32 of the 2010 Act on 8 April 2010, a local analogue licence which was granted before 8 April 2010 may be renewed under section 104A of the 1990 Act on one occasion for a period of 12 years if the applicant nominates a local digital sound programme service provided or to be provided by him and a relevant local multiplex service. A local analogue licence granted on or after 8 April 2010 may not be renewed under section 104A.
- A4.14 An application for renewal under section 104A may not be made before Ofcom publish a notice inviting applications for a licence to provide a relevant local radio multiplex service or more than 3 years before the licence would otherwise expire, and may not be made less than 3 months before the date Ofcom would need to publish a notice if we were to grant a fresh licence to provide the service.

Renewal of up to seven years

- A4.15 Following the coming into force of section 32 of the 2010 Act, a local analogue licence²⁰ which has been renewed for 12 years under section 104A or which is granted on or after 8 April 2010 may be renewed under section 104AA of the 1990 Act on one occasion for a period of not more than seven years.
- A4.16 The applicant must nominate a local digital sound programme service provided or to be provided by him and a relevant local multiplex service. Alternatively, under new section 104AB of the 1990 Act, in the case of a licence approved by Ofcom (an 'approved licence')²¹, an applicant may make a 'national nomination', i.e. he may

¹⁹ Renewals are also available for national licences but are not discussed in this document.

²⁰ Renewals are also available for national licences but are not discussed in this document.

²¹ The current list of approved licences is set out in

<http://www.ofcom.org.uk/consult/condocs/radio/statement/Addendum.pdf>

nominate a national digital sound programme service provided or to be provided by him and a national radio multiplex service.

- A4.17 An application for renewal may not be made more than 3 years before the licence would otherwise expire, and may not be made less than 3 months before the date Ofcom would need to publish a notice if we were to grant a fresh licence to provide the service.

Extension and renewal of pre-transfer local analogue licences

- A4.18 Under section 253 of the 2003 Act, a person who holds a pre-transfer local licence (i.e. one which was granted before the radio transfer date²² and which has not been modified under section 253 or renewed at any time on or after that date) is entitled to apply to Ofcom for a 4 year extension of the licence.
- A4.19 An application may not be made more than 3 years before the licence would otherwise expire, or less than 3 months before the date we would need to publish a notice if we were to grant a fresh licence to provide the service.
- A4.20 A pre-transfer local licence (including one for a period extended under section 253 of the 2003 Act) may not be renewed under section 104A of the 1990 Act if it has already been renewed under this section before the radio transfer date. Otherwise the renewal provisions described above apply.

Termination of local analogue licences

- A4.21 Section 86 of the 1990 Act provides that Ofcom may vary the period for which a licence is to continue in force only if the licence holder consents. However this does not affect the operation of the following provisions which have been inserted into the 1990 Act by the 2010 Act.

Digital switchover

- A4.22 The Secretary of State may give notice to Ofcom under new section 97A of the 1990 Act, nominating the date for digital switchover for the post-commencement services specified in the notice. A 'post-commencement service' is a local, national or additional service that is provided under a licence that was granted on or after 8 April 2010 or which has been renewed under section 103B (national licences) or section 104AA (renewal of local licences for up to seven years). The Secretary of State may nominate different dates for different services and may withdraw a nomination.
- A4.23 After a date for digital switchover has been nominated, section 97B provides that if the licence to provide the post-commencement service expires after the date for digital switchover, Ofcom must vary the licence so that it expires on or before that date. However Ofcom may not shorten the licence period so that it ends less than 2 years after the date on which it gives notice of the variation unless the licence holder consents. If the licence expires on or before the date for digital switchover, Ofcom may not vary it so that it expires after that date.

²²The date on which the Radio Authority's functions under Part III of the 1990 Act were transferred under the 2003 Act to Ofcom, i.e. 29 December 2003

Variation of licence period following renewal

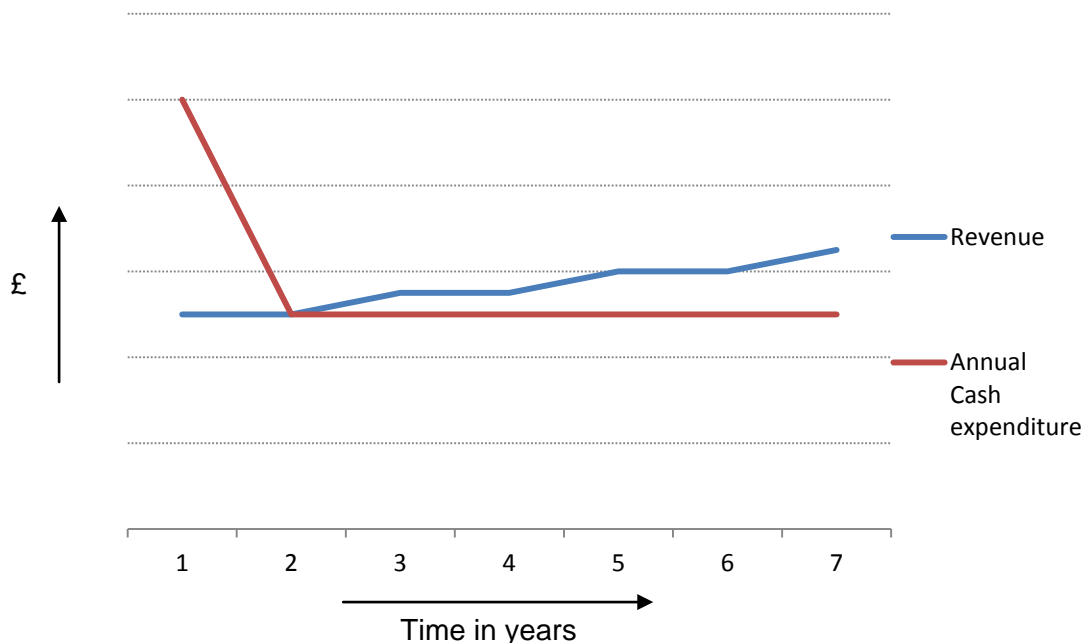
- A4.24 If the Secretary of State has not nominated a date for digital switchover of a relevant renewed service or has withdrawn the nomination, he may give notice to Ofcom under new section 105A of the 1990 Act fixing a termination date in relation to that service. A 'relevant renewed service' is a national service provided under a licence which has been renewed under section 103B or a local service provided under a licence that has been renewed under section 104AA (renewal of local licences for up to seven years). Different dates may be fixed for different services but the termination date may not be before 31 December 2015.
- A4.25 If the licence to provide a relevant renewed service expires after the termination date fixed for the service, Ofcom must vary the licence so that it ends on or before that date. However Ofcom may not shorten the licence period so that it ends less than 2 years after the date on which they give notice of the variation unless the licence holder consents. If the licence expires on or before the termination date, Ofcom may not vary it so that it expires after that date.
- A4.26 The Secretary of State must consider, before 31 December 2013, whether to exercise the powers in section 105A.

Annex 5

Commercial issues

This annex is reproduced from the 2010 Consultation for ease of reference

- A5.1 The length of time for which a local analogue licence is granted has implications for the commercial viability of the broadcasting radio station.
- A5.2 A radio station is said to be economically viable if the revenues received over the licence period are more than the costs incurred over that period.
- A5.3 If the radio broadcaster is a new entrant, the revenues may increase over time as the station establishes a listener base and reputation.
- A5.4 Conversely the costs a radio station incurs may be higher in the early years as one-off capital purchases are required and initial start-up activities need to be carried out.
- A5.5 Below is an illustrative graph of a typical local analogue radio station which shows the annual cash expenditure and revenues of a radio station against the number of years it has been broadcasting.



- A5.6 This annex will focus on the following three points
- Capital investment: some of the initial capital equipment a radio station requires will last for several years. Normally the costs of this equipment should be

recovered over the equipment's useful life. However if the licence period is shorter than the useful life then the costs of the assets will need to be recovered over the shorter period of the licence thus requiring higher revenues to break even in this period.

- **Business contracts:** in order to broadcast, a radio station will need premises, a transmission system, and various other activities carried out. The radio broadcaster may choose to contract with third parties to provide these services. The third party suppliers may offer lower annual fees in exchange for commitments to longer contract periods. However the contracts a radio station signs cannot exceed the licence period.
- **Initial start-up activities:** a radio station commencing operations will perform a number of activities in the first years that once established it will not have to repeat. For example it will incur marketing costs establishing the brand and listener base. A longer licence period will allow these initial costs to be recovered over a longer period during which more revenue may be generated. This could reduce the risk of the venture because it will enable radio stations to have a longer period over which they can recover these initial costs.

Typical local analogue commercial station

A5.7 There is a wide range of local analogue commercial radio stations. The financial return these stations typically receive varies considerably. Some return sustained financial profit, whilst some continue broadcasting despite incurring financial losses.

A5.8 The broad range of these stations can be seen in the measures shown below:

Measure	Local analogue station (no DAB coverage)
Measured coverage area (MCA)	Up to 350,000 people
Annual revenues	Up to £2 million
Annual profits/losses	ranging from +£350,000 profit to - £200,000 loss
Number of Staff	ranging from 7 to 20 direct staff
Business planning cycle	5 years (taken from licence applications)

Costs spread over time and business contracts

A5.9 Broadcasting activities: Ofcom commissioned a UK radio 'flow of funds' report in May 2009.²³ Within this report the costs a 'typical' local radio station would incur was discussed. The table below is a summary table from this report.

²³ UK Radio Impact of regulatory relaxations, Ofcom, 5 May 2009, <http://stakeholders.ofcom.org.uk/binaries/consultations/radio/annexes/annex8.pdf>

Cost Category	Constituent cost	% of Annual accounting costs
Sales and marketing	External commission	1%
	In-house sales costs	15%
	Station marketing costs	6%
Transmission	Transmission	12%
Production	Programming	15%
	Commercial production	4%
Rights	Rights	9%
General & Admin	General & Admin costs	37%

- A5.10 The business planning timeframe: The costs a radio station incurs over time should be planned in advance to ensure optimum business efficiency and management. Due to the way costs may be incurred it may be preferable for a radio station to plan certain costs over certain timeframes to ensure the most efficient outcome.

The table below suggests possible planning period for activities a radio station performs

Cost Category	Actual Cost	Planning period	Description
Sales and Marketing	Staff	1-3 years	Staff costs are generally planned annually however being able to offer staff greater job security may attract better talent
	Advertising Equipment	1-3 years	Advertising equipment, for example stands may be purchased that could last over a number of years
Transmission	Annual charge	1 year	Annual transmission fees paid to a transmission provider
	Fixed term contract	>5 years	Annual transmission fees paid to a transmission provider under a long fixed term contract
	Fixed capital cost	>5 years	Transmission equipment such as radio antennas purchased and depreciated over a number of years
Production	Staff	1-3 years	Staff costs are generally planned annually however being able to offer staff greater job security may attract better talent

Cost Category	Actual Cost	Planning period	Description
Rights General & Administration costs	Production equipment	1-5 years	Production equipment is generally depreciated over 5 years, however this may last several years longer.
	Rights	1 year	Rights are paid annually with a fixed and variable element
	Staff	1-3 years	Staff costs are generally planned annually however being able to offer staff greater job security may attract better talent
	Property costs	>5 years	Offices and premises could be leased over long periods of time to seek reduced annual charges
	Office equipment	1-5 years	Office equipment is generally depreciated over 5 years

Initial start-up activities

A5.11 A radio station must carry out a number of activities before it can go on-air.

A5.12 Below is an example of some of the one-off activities a radio station needs to complete before it can broadcast

- Purchase radio broadcasting equipment
- Find suitable premises
- Employ broadcasting and office staff
- Purchase transmission equipment or seek a third party to provide this service

A5.13 These activities do not need to be repeated once the radio station is broadcasting (although new equipment etc may be required).

A5.14 Local radio stations obtain revenue from three main sources

- National air time advertising. Local radio stations can carry national advertising. The size of this revenue is related to the reach and listener base of the radio station.
- Local business advertising. Local radio stations can obtain advertising revenue from local businesses. The size of the revenue generated is negotiated by the sales staff, however the bigger the audience and the more established the brand the easier it will be for sales staff to negotiate attractive sales deals.
- Sponsorship. Local businesses could sponsor programmes and radio events in return for specific advertising. Again more established radio stations may find it easier to win these types of deals.

A5.15 As shown above radio stations will have to engage in activities in the early years to ensure they can broadcast. These activities will incur significant costs which will then have to be recovered over the broadcasting period. Additionally radio stations will find it more difficult to attract advertising (the main source of revenue) in the early years of broadcasting when the station does not have an established listener base and client list.

Conclusions

- A5.16 The costs a radio station incurs in the early years of broadcasting will be greater than in later years due to the up-front capital investment and set-up activities the radio station needs to carry out.
- A5.17 The revenue a radio station attracts in the early years of broadcasting may be less than in the later years. This is because revenue is linked to the size of the listener base (which could grow over time) and the local business relationships the radio station establishes (which again could grow over time).
- A5.18 Therefore longer licence periods may increase the economic viability of a radio station as it will have more years of potentially increasing annual revenues to recover the initial up-front costs. This assumes the annual revenues in later years are larger than the annual costs, producing a positive contribution to offset the initial up-front expenditure.
- A5.19 The rate at which the revenue a local radio station generates increases over time (if at all) is very uncertain.
- A5.20 The business plans radio applicants have submitted for past analogue licences suggest initial up-front capital costs and activities required to broadcast are usually depreciated over 5 years, although in some cases this may be slightly longer. This may indicate that the initial costs of these assets are expected to be recovered by the revenue generated over a 5 year period.
- A5.21 The business plans radio applicants submitted for past analogue licences suggest radio stations generally seem to plan their business operations over 5 years. This may be due to the following factors –
- Broadcasting revenues are very uncertain over periods greater than five years
 - Radio stations generally forecast to break even over a five year period
 - Potential investors generally require a return on their investment within 5 years.
- A5.22 Radio stations may engage in contracts with third party suppliers to carry out activities on their behalf. Signing longer contracts with these suppliers may reduce the annual cost of the contracts.
- A5.23 Licence periods of less than five years may significantly influence the commercial viability of radio broadcasters.
- A5.24 Licence periods greater than five years may give commercial radio stations a better chance of recovering their total expenditure during the licence period depending on the way their business is structured and planned.