

Title: Local TV: Implementing a new framework Lead department or agency: DCMS Other departments or agencies: Ofcom, HMT, BBC	Impact Assessment (IA)
	IA No: DCMS005
	Date: 28/06/2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Research (see para 34) shows high demand from audiences for local news and content, some of which is available through newspapers, radio and online. However, the UK market has been unable to support sustainable commercially viable local TV, as it is hampered by market barriers with limited regulatory incentives. Despite television being the media platform with the greatest household use, these barriers limit commercial opportunities for local TV to develop. Government can incentivise the market and encourage growth by tackling the barriers to entry and creating a framework for local TV services to emerge that will bring wider economic, social, cultural and democratic benefits. Local TV will have a vital role to play in the localism agenda, in holding local institutions to account and increasing civic engagement at a local level.

What are the policy objectives and the intended effects?

In line with the Coalition Agreement, Government is committed to enabling local TV to emerge in the UK. The Government will create a regulatory framework to enable and support commercially sustainable local TV as part of the wider growth agenda. This will not be an imposition on existing broadcasters or create new regulatory burdens. Instead it will create an opportunity for the market, through reservation of sufficient geographic interleaved spectrum to carry local TV; implementing a new fit-for-purpose local TV licensing regime; and ensuring that licensed local TV providers can benefit from appropriate prominence in television electronic programme guides (EPGs). The BBC has committed to contribute to capital infrastructure costs and to ongoing costs for the first 3 years through purchase of local content.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1. Do nothing. This has no cost or impact on the market. Makes it extremely unlikely that sustainable local TV will emerge and succeed.

2. Create a new local TV framework with three key elements:

- a) Acquiring spectrum
- b) Ensuring EPG prominence
- c) Developing a fit-for-purpose local licensing regime

The costs and benefits of the options Government could use to deliver this framework are considered in detail in the Evidence Base section, taking into account alternative options for spectrum and EPG prominence.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 6/2014

What is the basis for this review? PIR. **If applicable, set sunset clause date:** N/A

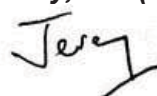
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



Date:

16 June 2011

Description:

Do Nothing

Price Base Year	PV Base Year	Time Period	Net Benefit (Present Value (PV)) (£m)		
			Low: 0	High: 0	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate			0

Description and scale of key monetised costs by ‘main affected groups’

N/A (Local and national media industries would continue within their current parameters , with no new costs imposed on businesses).

Other key non-monetised costs by ‘main affected groups’

N/A (Local content in press and on radio will continue to see a decline through structural and cyclical change. This may have a consequent impact on businesses which struggle to survive. This has a consequent impact on society of benefits of local TV not being realised. These are the 'Benefits' in Option 2).

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate			0

Description and scale of key monetised benefits by ‘main affected groups’

N/A (these have been captured as opportunity costs in Option 2).

Other key non-monetised benefits by ‘main affected groups’

N/A (these have been captured as opportunity costs in Option 2).

Key assumptions/sensitivities/risks

Discount rate

Without any intervention from Government, local television will continue to face technical and market barriers, accompanied by limited regulatory incentives. In trying to get viable services carried on digital terrestrial television, local TV services have to compete with national broadcasters but without an appropriate legislative framework to support them. Given the small size of these companies and with an unfavourable cost framework, the risk is too great for investors and businesses to develop a business model and invest in. Local TV may eventually emerge on IPTV over the coming years, but the timeframe for this is difficult to establish, and it is likely to be more disparate, fragmented, and difficult to find (a television platform rather than internet would provide significantly greater visibility and television is the most used media platform).

Direct impact on business (Equivalent Annual) £m):			In scope of	Measure qualifies
Costs: N/A	Benefits: N/A	Net: N/A	No	NA

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			United Kingdom		
From what date will the policy be implemented?			N/A		
Which organisation(s) will enforce the policy?			N/A		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			N/A		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A	Benefits: N/A	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Description: Create new local TV framework (preferred option using secondary legislation to: reserve GI spectrum; ensure appropriate EPG prominence; and implement a robust local licensing framework)

PRICE BASE YEAR	PV BASE YEAR	TIME PERIOD 20 YEARS	NET BENEFIT (PRESENT VALUE (PV)) (£M)		
			LOW: -	HIGH: -	BEST ESTIMATE: SEE BELOW

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant)	Total Cost (Present Value)
Low	-		-	£0
High	-		-	£80m (opportunity cost)
Best Estimate				£40m *

Description and scale of key monetised costs by ‘main affected groups’

This policy is about creating an opportunity in the market for businesses to take advantage of. It does not impose new direct costs or burdens.

* Reservation of some Geographic Interleaved spectrum for local TV could represent an opportunity cost to those who might otherwise have used the spectrum for other DTT purposes if they chose to acquire it. This opportunity cost ranges from £0 to £80m and the assumptions are set out at paragraph 75.

The BBC is providing a contribution of up to £40m over 4 years to local TV, set out at paragraph 116.

Other key non-monetised costs by ‘main affected groups’

Reservation means HMT would not receive open auction receipts. However, (1) it may receive funds through Administered Incentive Pricing; (2) previous auctions for GI spectrum have released it at the reserve price of £10,000; (3) this is only a small part of the GI spectrum available in the UK (approx 5-8%). By generating advertising revenue, there may be a transfer of advertising value from existing broadcasters of local media, though this is likely to be small (more detail is at paragraph 112).

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant)	Total Benefit (Present Value)
Low	-		-	See below
High	-		-	See below
Best Estimate				See below

Description and scale of key monetised benefits by ‘main affected groups’

This policy puts in place a framework to enable the emergence of sustainable local TV in the UK. This leads to both economic benefits and wider social benefits, some of which have been costed through previous research. Ofcom research identified an economic value of £0.05bn to £1bn over 20 years from local TV (the assumptions underpinning this are set out at paragraph 25). Research has also identified the high value individuals assign to public service broadcasting – e.g. Ofcom research suggests households’ willingness to pay of over £3.33 per month (see paragraph 26).

The BBC contribution enables up to £40m of benefits to potential local TV providers and audiences.

Other key non-monetised benefits by ‘main affected groups’

Local TV providers successful in bidding for the new local content licences will have new business opportunities to exploit. Local media providers could get involved in local TV – helped by the recent removal of local cross-media ownership rules. There will be commercial spin offs in the local production sector and higher education institutions for example, who may provide access to media facilities.

Key assumptions/sensitivities/risks

Local TV delivered via Geographic Interleaved spectrum could reach up to 60% of households across the UK. Initially these are more likely to be in conurbations, due to the requirement for larger audience sizes to sustain local services. Television is the media platform with the highest use in the UK and local TV will reach many people. Local TV will be available on digital terrestrial television (DTT) as a minimum, with the potential to also broadcast via satellite and cable. The introduction of local TV may increase competition with existing media, which is discussed in more detail in the Competition section on page 25-26.

Discount rate

-

Direct impact on business (Equivalent Annual) £m):	In scope of	Measure qualifies
Costs: 0	Yes	IN (Zero-In)
Benefits: £39m		
Net: £39m		

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			United Kingdom		
From what date will the policy be implemented?			01/11/2011		
Which organisation(s) will enforce the policy?			DCMS, Ofcom		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	
Does the proposal have an impact on competition?			Limited		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A	Benefits: N/A	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	N/A	N/A	N/A	N/A	N/A

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Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	26
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	25-26
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	26-27
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No	Legislation or publication
1	Nicholas Shott for DCMS (2010): Commercially Viable Local Television in the UK www.culture.gov.uk/publications/7655.aspx
2	Ofcom (2010): Emphasising localness in the PSB system http://stakeholders.ofcom.org.uk/broadcasting/tv/emphasising-psb-localness
3	Ofcom (2010): Technical Delivery Options for Local Television Services – Research Document http://stakeholders.ofcom.org.uk/broadcasting/tv/technical-delivery-options
4	Ofcom (2009): Local and Regional Media in the UK http://stakeholders.ofcom.org.uk/binaries/research/tv-research/lrmuk.pdf
5	Ofcom (2007): Digital Dividend Review http://stakeholders.ofcom.org.uk/consultations/ddr
6	BBC Local Video proposal (2009) www.bbc.co.uk/bbctrust/our_work/pvt/local_video_proposal.shtml
7	DCMS (2009): Attitudes to supporting non-BBC regional news www.culture.gov.uk/images/publications/TNS-BMRB_interimsummaryreport.pdf
8	Ofcom (2008): Assessing the value of public service programming on ITV1, Channel 4 and Five http://stakeholders.ofcom.org.uk/binaries/consultations/psb2_phase2/annexes/annex6.pdf
9	Media Trust (2010): Meeting the news needs of local communities http://www.mediatrust.org/uploads/128255497549240/original.pdf
10	<i>More References included in Annex 3</i>

Evidence Base (for summary sheets)

Problem under consideration

1. The local TV market in the UK does not properly exist and the Government believes that now is the right time to address the unnecessary market barriers that are preventing successful local TV services from emerging. This will contribute to the wider growth agenda, particularly within the creative industries. The Government is looking to create the right incentives to enable local TV to have a chance in today's (multi)media market. At the same time, it will open up an opportunity for existing local media to move across platforms into television and develop new business models.
2. It is widely accepted that local and regional content is at risk across traditional media platforms and in some places has started to diminish. For example, the Audit Bureau of Circulations showed that in the second half of 2010, only 29 out of 383 paid-for weekly titles increased their circulation. Of those titles in decline, in 53 cases, the percentage fall was in double figures¹.
3. Most electronic media is not focused at the local level. Where local content is provided (via local newspapers or online) it too is under threat where newspapers are closing down due to a decline in circulation or it has very low market penetration (online local news when compared with national news). This is likely due to a number of factors. The press industry has been under sustained pressure from structural and cyclical changes; online business models have pushed the boundaries but services are inconsistent across the UK in audience access and quality. Television – the media platform with the highest audience use across the UK – offers a medium for regenerating local content and news. Indeed, television use in general has increased over the past five years².
4. BBC1 and ITV1 currently broadcast regional news bulletins during the week. However, this regional programming cannot be classed as properly local as it often stretches across counties and a number of conurbations. Evidence suggests that audiences have high regard for local news – with 80% of consumers in an Ofcom report stating that local news is important to them³. In the nations (Scotland, Wales and Northern Ireland) the provision of news that covers the whole nation is also provided on BBC1 and Channel 3 and similarly enjoys high audience ratings. However, the continued commercial provision of TV regional news has, in recent years, been thrown into question due to the high legacy costs associated with the production of this kind of programming and the relatively small revenues that are generated through the sale of advertising around this content by broadcasters largely focused on national output and maximising the value of advertising. These same issues have created significant barriers to entry to the market for standalone local TV services. The high inherent value of PSB content as well as the democratic benefit is discussed in the “Benefits” section below and it is important this is recognised in the development of local TV.
5. A key challenge for DCMS has been to find a way of enabling, supporting and sustaining the provision of good quality local content without adding new burdens or constraints on existing public service content providers or the wider media market.
6. Previous Ofcom research has indicated that local news, weather and sport will be the key drivers of content for local TV⁴. Content will need to be of sufficiently good standard to attract and retain audiences but this must be balanced with the costs of producing original content. The Shott review (discussed later in this paper) noted the importance of quality of content. Local content must be able to stand up to the very high production values viewers of television news programmes have become used to. The likely investigative nature of local TV news can be expensive and time-consuming to produce in high quality, so sufficient revenues are needed to support this.
7. Despite the need for investment in high quality programming, new local TV services have the advantage of being able to put in place business models that have very low overheads and operating costs on a smaller scale, unlike the existing commercial PSBs. The Shott review (discussed later in this Evidence Base) suggested local stations could operate at a reasonable cost of £1m per annum, and

¹ Audit Bureau of Circulations (ABC), 2011.

² Ofcom Communications Market Report, 2010 – p.113

³ Ofcom: Local and Regional Media in the UK, 2009 – p.53

⁴ Ofcom: Local and Regional Media in the UK, 2009 – p.74

subsequent respondents to the Government's Local Media Action Plan have stated that this cost could be reduced through, for example, shared use of facilities at a local level or sharing resources with local newspaper groups.

Policy Objective

8. The Coalition Agreement sets out the Government's commitment to promoting a "strong and diverse local media industry". Central to delivering this aim is the creation of a new local television framework, a key Government commitment and a priority for the Secretary of State for Culture, Olympics, Media and Sport⁵.

9. Local TV is the generation and broadcast of new and original programming about, and focused on, local areas. Local areas are places people recognise as their immediate community or area in which they live. This will vary across the country, but DCMS takes the view for local TV services that it is the main conurbations (town or city) served within a digital terrestrial transmitter coverage area. The current regional news output of the BBC and ITV is not local television.

10. Local TV has had a weak history in the UK, particularly when compared with other media markets on the continent and in North America. A combination of specific market factors coupled with the lack of a regulatory framework that is targeted and fit for purpose has meant that commercially sustainable local TV has not emerged in the UK. There have been some examples of small standalone local stations developing, but they have been unable to survive in the long-term. The Government now wishes to address this by taking action on removing barriers to entry and creating the right incentives for local TV to emerge on a sustainable basis.

11. In the UK, public service broadcasting has dominated the television media market and has with it a legacy of brand presence, access to spectrum and prominence in electronic programme guides (EPGs). In return for these benefits, public service broadcasters are required to provide public service content, such as regional news or original productions.

12. The powers available to the Government to create a specific regulatory regime for local television services are set out in the Communications Act 2003. In particular, section 244⁶ allows the Secretary of State to lay an Order to implement a new licensing regime for local digital terrestrial television services. Combined with other available powers, there is ample scope to create a new framework to incentivise local TV innovation.

Big Society

13. The Government's localism agenda means that power is being pushed out of Westminster and down to the local level. The importance of local media is significant. It can hold local institutions to account and empower communities with the necessary local knowledge and information important to foster local action and to support local democracy.

14. DCMS analysis finds that there is a strong association between consuming existing local news (newspapers, radio, online) and civic activity (voting, volunteering etc)⁷. This indicates that local news can produce externalities in the form of local civic action, the value of which is not currently captured by existing TV news suppliers, leading to an undersupply.

15. The Government will create a new framework by exercising available powers that will allow market participants to take the opportunity to provide local TV services.

16. Priority 3 of the DCMS Structural Reform Plan (SRP) is to "Boost the Big Society" - by encouraging philanthropic giving, returning the National Lottery to its founding principles and fostering the development of a new breed of strong local media groups. The SRP commits DCMS to establishing

⁵ Source: "The Coalition: Our Programme For Government" and DCMS Structural Reform Plan.

⁶ <http://www.legislation.gov.uk/ukpga/2003/21/section/244>

⁷ Citizenship Survey 2008/9, analysis by DCMS

licensing arrangements for Local television by November 2011 with the first Local TV services licensed by August 2012 and 10 to 20 local TV stations licensed by May 2015.

The market

17. The UK's local and regional media sector is a mixed ecology which includes 1,300 regional and local newspaper titles, over 350 BBC, commercial and community-based local radio stations, television news bulletins that reach large regions and a range of public and commercial local content carried on the internet.

18. Only a very small number of local TV stations have attempted to broadcast and these have generally been unsustainable in the long-term. The Government is concerned about why this market has not developed, despite interest from audiences, enthusiasm in local areas and the possibilities local TV has in providing audiences with quality content and helping the wider local media industry. The Government believes that the right regulatory incentives and start-up support can help to tackle barriers to entry and encourage a new local TV market to emerge. The table below provides an approximation of the number of current market participants in local and regional media.

Table 1: summary of local and regional media

Type of media	Number of services / publications	Examples of operators
Local and regional newspapers	c.1300	Newspaper groups such as Trinity Mirror, Guardian Media Group, Johnston Press, Newsquest, Archant, DC Thomson, Alpha Newspaper Group
Local commercial radio	295 stations	Bauer, Global, UTV, GMG Radio, UKRD
Channel 3 television	8 TV bulletins in England plus 2 in Scotland, 1 in Wales and 1 in Northern Ireland. Sub-regional obligations in 6 regions	ITV Broadcasting Limited, STV, UTV, Channel TV
Television in the Nations	3 services (in Scotland, Wales and Northern Ireland)	BBC Alba (DTT launch date June 2011, S4C, Tele G (available in analogue, DTT launch due in 2011)
BBC Regional TV news	12 main programmes plus 3 English opts	BBC also produces news for nations Welsh and Gaelic language services
Local TV	3 RSLs active. Very limited number of cable/satellite only local channels	Mixture of community groups, small firms and GMG (Channel M)
BBC Local and Nations Radio	40 local stations in England – 2 national services in Wales, 2x Scottish national service, 2xNI service	Includes non-English language stations in Wales and Scotland Some opts in Scotland and England
Community radio	190+ stations broadcasting	Run by not-for-profit geographic and non-geographic focused community groups
Internet	Diverse range of sites – many thousands operating	Includes wide range of community groups, sites operated by traditional media groups online only operators and search engines / content aggregators. BBC operates a range of local websites, including coverage of English counties, Northern Ireland and regions within Scotland and Wales.

Source: Ofcom, Local and Regional Media in the UK, 2009 (updated by Ofcom on request for 2011)

19. The local media sector is heterogeneous in terms of what is provided across the market with many different forms of media being prevalent at different sizes of targeted geographic area. As convergence and evolution of digital technologies occurs, this heterogeneity is likely to increase and new

local TV services will need to compete effectively in this market. There has also been a trend of consolidation which has meant that some 'local' services (e.g. radio) have been subsumed into a larger regional or national identity with small local opt-outs.

20. The share of the media market taken up by local TV is extremely small. Only 3 restricted service licences (RSLs) used for broadcasting local TV services are currently in operation (intermittently) in the UK. There is significantly more local TV available in North America and Europe. This is due to a number of factors, including historic but also Government subsidies in those countries or regulations in place to ensure funding for local TV, sometimes subsidised by other broadcasters.

21. The table below⁸ offers a snapshot of the main players in the local or regional media markets in 2009 and the type of platform content that each provides. This shows how far local TV is limited within a market dominated by large commercial players and the BBC.

Table 2: Main players and type of content in local and regional media markets

	Type	Regions & Nations TV	Local TV	Local/ Regions/ Nations Radio	Local/ Regional Press	Online
BBC	Public Corp	✓		✓		✓
ITV Plc	Plc	✓				✓
STV	Plc	✓				✓
UTV	Plc	✓		✓		✓
Global Radio	Private			✓		✓
Bauer	Private			✓		✓
Trinity Mirror	Plc				✓	✓
Newsquest (Gannett)	Subsidiary				✓	✓
Johnston Press	Plc				✓	✓
Northcliffe & Associated (DMGT Plc)	Plc				✓	✓
Guardian Media Group	Private		✓	✓		✓
Archant	Private				✓	✓

Source: Ofcom analysis, 2009

Benefits of local TV

22. Local TV brings a number of benefits with it, both social and economic. The positive externalities are not always considered in the market's decision to provide (or not provide) local TV, and therefore local TV is undersupplied by the market.

23. Ofcom recognised in its Digital Dividend Review that local TV has the potential to deliver public service benefits (i.e. with a broader social value) and a number of social benefits⁹. These can take a number of forms, including:

- a. Informing local residents and increasing their understanding through news, information and analysis, with a particular emphasis on issues relevant to their locality.
- b. Stimulating interest in and knowledge of arts, science, history and other topics, particularly relevant to the locality.

⁸ Ofcom – Local and Regional Media in the UK, 2009 – p.24

⁹ Ofcom "Digital Local" report, 2006 and "Digital Dividend Review", 2007.

- c. Reflecting and strengthening cultural identity, particularly that which is based on shared local identities, through original programming at a local level, and bringing audiences together for shared experiences.
- d. Making viewers aware of different cultures and alternative viewpoints through programming which reflects the lives of other people and other communities within the local area.
- e. Supporting and enhancing access to local services, involvement in community affairs, participation in democratic processes and consumer advice and protection.
- f. Value of volunteering. Local TV will encourage citizen participation and encourage individuals to view their community at a local level. From this, there can be an increase in volunteering activity, specifically driven by local TV. This increased volunteering force could be an important driver in the local area.
- g. Opportunity for rejuvenation of the local media market (newspaper, radio, online) as media crosses to different platforms and diversifies in order to reach the largest possible audience.

24. Local TV can also be a significant economic driver. Economic benefits can arise from local TV, particularly at a local level. These economic benefits include:

- a. Increased local employment opportunities. Each station will require staff to produce and present content, manage programming, sell advertising, carry out administration, etc.
- b. Increase in tax revenues, from the new local TV services setting up new businesses.
- c. A boost to the local creative industries. These industries are an important revenue driver, the link between local TV and the creative industries could be a significant one, and this is also linked to the Government's wider growth agenda.
- d. Institutions are held to account through local TV journalism, ensuring value for money is achieved by local institutions.
- e. Local TV may be able to tap into latent local advertising demand. The exact amount of latent local advertising is difficult to estimate, but anecdotal evidence submitted in response to the Local Media Action Plan indicated a latent supply.
- f. Local businesses may see a boost to business from an ability to focus their advertising at a local level. The more targeted advertising and cheaper entry costs could make advertising on local TV an attractive proposition.

Identifying a monetary value of local TV

25. It is difficult to attach a monetary value to the benefits of local TV. Ofcom's Digital Dividend Review (DDR)¹⁰ carried out analysis on the producer and consumer value of local TV. This analysis suggested that using part of the digital dividend for local TV could generate an economic value (total aggregate consumer and producer surplus) of £0.05bn to £1.0bn over 20 years¹¹. With Government commitment to delivering a framework with the removal of market barriers and an investment contribution from the BBC, the value to be achieved from local TV could increase and be closer to the higher end of the Ofcom valuation. The figures from the DDR are helpful in setting the scene for the benefits of local TV and offer an important illustrative example, but are not robust enough to be used in this impact assessment as definite monetary values, due to the different assumptions used (e.g. around demand, content costs and the number of programming channels) and a different economic backdrop. It is also very important to note that the Ofcom figures are essentially only concerned with the economic benefits. These do not value the social benefits, which we expect to be significant from local TV, in a way common to all public service broadcasting. Ofcom's Digital Dividend Review suggested a 10% value for the Broader Social Value of DTT services as a whole including local TV.

26. Other research has been carried out to understand the inherent value of public service broadcasting in the UK, which local TV will be a part of. There is a value to the service these broadcasters provide through their high quality content to the community at large. Ofcom has previously

¹⁰ <http://stakeholders.ofcom.org.uk/binaries/consultations/ddr/statement/statement.pdf> and <http://stakeholders.ofcom.org.uk/binaries/consultations/ddr/statement/ddrannex.pdf>

¹¹ Producer surplus – this involves assessing the benefits producers gain from selling a good or service for more than they are willing to sell it (i.e. the costs of production including an appropriate return on capital invested). Consumer surplus – this involves assessing the benefits consumers gain from consuming goods and services over and above what they have to pay for them.

carried out some research to understand the general public's perception of the value of public service programming¹² in relation to the existing PSBs. This research set out to measure the general public's perception of the value of public service programming by investigating how much people were willing to pay for this programming, in addition to paying the current licence fee for the BBC. Results showed an average value of between £3.33 and £3.50 per month per household. This clearly indicates that audiences value this type of content. When this research is placed alongside the importance of news and local content research it is fair to assume that audiences will place a high value on local TV, although the figures cannot be used to provide an exact value as the scenario of a new local TV service will be different to that of the old PSBs. This does give a good indication though of audience interest.

27. Government has carefully explored the information available on the value of local TV and public service broadcasting as a whole. The data given above represents the best information available. Both valuation exercises provide a reasonable indication that the value of local TV is likely to outweigh any opportunity cost.

Commercial viability

28. In June 2010, the Secretary of State for Culture, Olympics, Media and Sport asked Nicholas Shott, Head of UK Investment Banking at Lazard, to carry out an assessment of the conditions necessary for commercially viable local television to emerge in the UK. So far, success of sustainable local TV stations has been very limited and this is linked to a number of barriers to entry.

29. In December 2010, following intensive engagement with over 100 interested parties and adopting rigorous financial modelling, Nicholas Shott submitted his final report¹³ to the Secretary of State.

30. In summary, his findings were:

- It is likely that the long term future of local TV will be delivery via Internet Protocol Television (IPTV)
- However, Digital Terrestrial Television (DTT) can be used as an effective transition technology to build the local TV brand by reaching a wide audience and understanding any issues before eventual transfer to IPTV.
- Ofcom should further consider the technical options available to local TV, taking into account a number of factors such as cost, ability to localise and audience reach.
- Local services should broadcast on a single DTT channel which has EPG prominence.
- Public Service Broadcasters (PSBs) should be involved in local TV, perhaps through cross-promotion of local services.
- Local stations should consider networking together where possible, in order to share resources and advertising as well as have a central source of national network content.
- Local TV licences should be awarded on a beauty contest basis.
- Carriage on cable and satellite platforms, whilst desirable, is not in itself necessary for the commercial success of Local TV.

31. Following the Shott review, DCMS published the Local Media Action Plan¹⁴ which was a consultation on the principles of local TV and looked at the different options for how local TV might be implemented and discussed the concepts of network channel operation and ownership models. DCMS received 140 responses including over 20 responses from organisations interested in providing a centralised network channel (known as a spine) that would carry local opts within the schedule for local TV services. Many more responses were focused on providing local services across the UK and others commented positively on the principle of local TV.

¹² Assessing the value of public service programming on ITV1, Channel 4 and Five: Summary Report, 2008

¹³ <http://www.culture.gov.uk/publications/7655.aspx>

¹⁴ <http://www.culture.gov.uk/consultations/7720.aspx>

Rationale for intervention

32. The Government is committed to putting in place a framework to help local TV emerge on a sustainable basis in the UK. This will be done in such a way as to maximise commercial opportunity while limiting public costs and costs to existing or new business and achieving a range of social and economic benefits.

33. The Government wants to see local TV emerge on digital terrestrial television (DTT) as a minimum. This is the Freeview platform that most households (74%) can access (even if the households subscribe to satellite or cable television – although accessing Freeview services in such households is more likely via second TV sets). The Government believes that there is sufficient appetite for local TV services.

34. Ofcom research (2007 and 2009)¹⁵ has shown that there is a clear audience demand for local news and for local television:

- 80% of people rate local news as important
- 60% consider community stories important.
- Over 40% chose local TV as one of their top two options for new spectrum use (2nd after new channels, and ahead of HD services and increased mobile phone coverage).
- Television remains the main source of news about what is happening in the local area, despite being principally regionally focused.
- 90% of UK adults regularly consume some form of local news, information or other content through television, radio, newspapers or the internet.

35. DCMS research (2009)¹⁶ showed that TV was by far the greatest source for local or regional news (72%) followed by newspapers (26%) then radio (17%). 60% said they consumed local or regional news at least 5 times a week, which compares with 75% who consume national news at least 5 times a week.

36. This demand indicates that local TV (including local news), were it to be available, would be watched and has a strong chance of being successful. However, the desire of audiences has to be balanced against the question of commercial viability. From early on in this process, the Government has sought to identify the barriers to entry and the conditions necessary for local TV to be viable (which was primarily the Shott review work) in conjunction with examining technical feasibility, scale of interventions needed, costs, impact and overall timescales.

Barriers to entry for local TV in the current market

37. The Government has identified a series of barriers to entry currently in place. These have prevented the development of long-term sustainable local TV in the UK and will need to be addressed if local TV is to emerge:

- a. Coordination failure in the market. This comes about where small-scale local operators are not able to cover significant transaction costs by themselves. Without coordination between parties, there has historically been limited success in overcoming such barriers. Significant operational costs are incurred in production – and indeed, the higher the quality thresholds, the more expensive production becomes.
- b. Broadcasting also requires significant upfront investment in fixed costs, in terms of purchase of transmitters and related technical functions. This large capital investment can be a significant barrier to new entrants, particularly those working on a small scale, such as local TV operators.
- c. Availability of and access to spectrum. Local TV will require the use of spectrum in order to broadcast its content on DTT. This could be either through an existing multiplex (such as those used by the Public Service Broadcasters) or through new use of Geographic Interleaved spectrum at a local level. Owing to the existing broadcast infrastructure in the

¹⁵ Ofcom: Local and Regional Media in the UK (2009) & Digital Dividend Review (2007)

¹⁶ TNS-BMRB: Social Research on Attitudes to supporting non-BBC regional news from the TV licence fee – p. 2

UK, broadcasting specific programming to multiple sub-regional areas presents specific challenges because of transmitter locations and configuration of household aerials.

Linked to the above issues, it is important to note that national broadcasters tend to have multiple functions and skills, i.e. they gather news and produce content, but also carry out all of the necessary technical functions. This has been more difficult to achieve on a small-scale with small-scale operators. Therefore the above barriers particularly affect local operators which are inherently small-scale and unable to have both the relevant programming and technical expertise, making them more at risk of failure.

- d. Ability to access sufficient advertising revenues and consequently build a commercially viable model. This is partly linked to the lack of sufficiently local audience measurement systems. Advertising is a major revenue stream for broadcasters and national advertisers require robust audience measurement to adequately target and measure the effectiveness of their campaigns. The current BARB audience measurement system does not currently provide results on the local level and any change to the system would be prohibitively costly. Whilst local audience data will not be readily available, some alternatives and proxies can be considered in order to attract advertising. Ability to attract sufficient advertising is particularly influenced by local TV's position on the television electronic programme guide (EPG) – i.e. channel number.
- e. Externalities. Local TV generates a large amount of broader social value (BSV), as outlined above. These externalities are inherently difficult for commercial operators to internalise and therefore may not be considered in their decision to supply local TV or form part of a sustainable business model.

38. The Government's view is that each of these barriers can be addressed through specific and targeted action by Government. The possible ways of addressing these barriers are explained in Option 2.

Description of options considered (including do nothing) – and Costs and Benefits

OPTION 1: DO NOTHING

39. If the Government took no action to support local TV, then it would not seek to implement any secondary legislation and the local media market would have no new framework to take advantage of.

40. Under this scenario, it is highly unlikely that sustainable local television on DTT will emerge. Historic evidence confirms this assertion in the way local TV has never really established itself in the UK marketplace because of the lack of a supportive framework and significant market barriers. In the past, there have been some attempts at putting in place commercial local TV business models, but the combined economics and barriers have meant all have run into commercial difficulty.

41. If no action is taken, aspirant local TV providers may bid for the relevant bands of spectrum if and when Ofcom brings it to auction. The spectrum that might be most attainable is geographic interleaved spectrum (GI spectrum). This spectrum is inherently local and suitable for broadcasting purposes. However, there is no guarantee of when this spectrum might be released without Government intervention or whether it would be used for local TV purposes. Local service providers would be very unlikely to have access to any other kind of spectrum as the value of this spectrum is prohibitively expensive. There would also be no guarantee of local TV's position on electronic programme guides.

42. Even if no intervention occurs, there is a possibility that some local TV services may eventually emerge on Internet Protocol Television (IPTV). However, the market trajectory is highly uncertain. In the shorter-term, IPTV will not offer the scale, and audience reach that local services carried on DTT could give. There is no guarantee that local TV on IPTV will emerge or the level of penetration that IPTV will have in the near future. Certainly, innovations such as YouView, connected television sets and set-top boxes make video on demand and IPTV services more certain. But we can expect significant

fragmentation of services if delivered via IPTV rather than through a more traditional standard DTT route in the short-to-medium term.

43. If local TV is not enabled, the potential benefits to society from having local TV will not be realised. The Do Nothing option brings no benefits. It is presented as a cost neutral model, in order to be a counter-factual position to the framework outlined in 'Option 2'.

OPTION 2: CREATE A NEW LOCAL TV FRAMEWORK

44. This option looks at the ways the Government can take targeted action in a number of key areas to enable local TV to emerge. This section discusses the costs, benefits, risks and assumptions.

45. The Government believes a number of factors have come together to make now the ideal opportunity to enable the development of local TV. This includes the availability of spectrum following digital switchover, a clear and recognised gap in the market, the BBC's agreed contribution of investment funding for local TV, significant market player interest, and a Government highly engaged on the issue. Government will be the enabler of a local TV market, but it is essentially for the market to take the opportunity to provide local TV services within the framework the Government is creating.

46. The Government's aim is to enable the creation of local TV across the UK, which serves local needs and is relevant to local audiences.

47. Under the preferred model, there is the potential to roll out local TV services to a number of locations across the country and many more through IPTV services in due course.

48. The following section will outline the interventions required to enable local TV. It should be made clear from the outset that the chosen interventions are not designed to impose additional burdens on businesses in the UK, i.e. Government will not be mandating existing broadcasters to produce local content. Rather, the interventions are only necessary to construct a framework which will enable businesses to take advantage of the local TV opportunity.

49. After considering the Shott review conclusions, in discussion with key stakeholders and following consultation on the Local Media Action Plan, the Government has chosen to focus on three key areas that need to be addressed through specific Government action to support local TV delivery. These directly stem from the key barriers identified earlier. These are:

- a. Spectrum – a technical solution to the question of how these services will be broadcast. In order for local TV to be available on the Digital Terrestrial Television (DTT) platform at a minimum, it is necessary for the services to have access to spectrum. This spectrum is used within multiplexes which carry video streams received by households through rooftop aerials. The Government has considered two available options for this: utilising an existing national Public Service Broadcaster (PSB) multiplex or using newly-cleared geographic interleaved spectrum to create local mini-multiplexes. These options are explained in detail in the "Spectrum" section below.
- b. EPG prominence. A prominent position on the Electronic Programme Guide (the channel menu available on all digital television sets) is important to ensuring the long-term sustainability of any local TV proposal. It is possible for prominence on the EPG to be achieved through either secondary or primary legislation routes, with slightly different outcomes.
- c. Local licensing. To ensure the quality and relevance of content to a local population, a fit for purpose local licensing structure needs to be in place. An appropriate local licensing regime will also extract a level of guaranteed benefits from local services in the form of licence obligations. There is already provision within the Communications Act 2003 to create a licensing framework for local services. This is under section 244, which the Government plans to use to create a local TV licensing regime, which will be implemented by Ofcom.

50. The options under these three areas requiring intervention are discussed in depth below, with costs and benefits considered.

ISSUE 1: SPECTRUM

51. In order to broadcast local TV on the DTT platform, access to spectrum is required. The Government has been clear that it expects local TV to be available on Digital Terrestrial Television (DTT) at a minimum. The market will determine whether it also achieves access to cable and satellite platforms, but Government has discussed options with these platforms in order to get the full picture for prospective local TV stations. Access to cable and satellite platforms requires specific technical capability and it will be left to the local services to determine through commercial negotiation.

52. It is important for Government to secure DTT spectrum for local TV and not simply leave it to the market, in order to resolve the market failures set out above. This is particularly a reaction to the historic barriers to entry to the market, mentioned earlier in this assessment, where the high cost of spectrum and inability to access it have previously meant inability of local services to broadcast their content. Local services have also been hindered by a lack of technical understanding sufficient to run a multiplex themselves.

53. It is important to note that the digital terrestrial television (DTT) infrastructure is not built around local areas. DTT aims to reach as many households as possible. Therefore finding a local TV solution on DTT has required the Government to examine all possible spectrum options. Reservation of sufficient amounts of spectrum for local TV will help to lower the barriers to entry, stimulate competition and ensure the long-term sustainability of local TV.

54. There are two issues the Government needs to deal with in respect of spectrum: ensuring there is sufficient spectrum available for local TV purposes; and this spectrum is properly engineered into providing multiplex capacity for the local services.

55. As outlined in DCMS's January 2011 Local Media Action Plan, the spectrum options for local TV were narrowed to the following: (1) engineering an existing PSB multiplex and taking the capacity freed as a result; or (2) building local multiplexes using newly cleared Geographic Interleaved (GI) spectrum. Many respondents recognised the significant costs involved in trying to deliver local TV via DTT but there were a range of views on which option offered the best solution. Government has therefore further considered the options.

PSB Multiplex

56. Some multiplexes exist which are operated by the Public Service Broadcasters in the UK to broadcast their content as well as carry competing services for a transmission fee. If local TV were to use one of these 'Muxes' to broadcast its own services, capacity would first have to be created (as it does not currently exist) and then secured on the multiplex. DCMS analysis indicates that the most suitable multiplex for this purpose is a PSB Multiplex known as Multiplex 2 which is operated by D3&4, a company joint-owned by ITV plc and Channel 4. It currently has 8 videostreams, but with engineering work it is possible that a ninth video stream could be created.

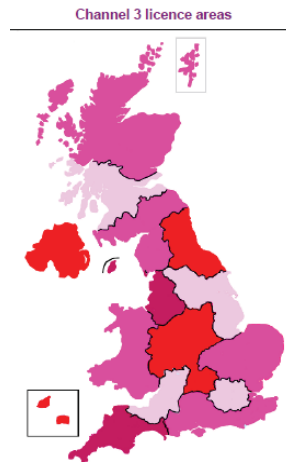
57. Carriage on a PSB Mux would reach 98.5% population coverage because the multiplex is receivable across almost the whole of the UK. This coverage would mean that national advertising revenues would be more easily secured.

58. However, there are significant issues that need to be examined in seeking to use this kind of multiplex capacity.

Regionalisation

59. Multiplex 2 is already “regionalised”. This means that the regional news services provided by ITV can be broadcast following a regional split (see map below¹⁷)

MAP OF THE ITV REGIONS (Ofcom, 2010) (map colours are not relevant)



60. The targeting of coverage would therefore be constrained by the existing transmitter network, which is not aligned with towns or cities. Instead, local TV services carried using this spectrum technology would be broadcast on an existing regional footprint. While it is possible that the regional multiplex can be localised, this would be very expensive to do.

Reserving this spectrum for local TV purposes

61. If Government were to reserve capacity on a PSB multiplex for local TV, it would do this by laying an order under section 243 of the Communications Act 2003. The Government has examined the scope of this legislation very carefully and concluded that such an order would be difficult and contentious. A means of addressing this would be to require an existing commercial PSB to provide local services or introduce primary legislation to change the provisions in the Communications Act 2003. The Government does not intend to do either, as this project is not about increasing burdens on existing broadcasters or introducing primary legislation where it is unnecessary.

62. Finally, it is important to note that utilising capacity on a PSB multiplex has associated high operational and capital costs. There are significant engineering costs associated with both the freeing-up of additional capacity and also to further regionalise the delivery. These high costs may put off some potential bidders who would see the business model as being too costly to support. Given the scale of these costs, the nationwide coverage and the regionalisation of the service, the operating model would mean that it is very difficult to bring together a number of local TV providers within a single video stream in this way without creating instability. This makes it an unattractive model for those interested in providing local services and could mean an unstable future if the PSB Mux option were pursued.

Geographic Interleaved spectrum (preferred option)

63. The second spectrum option the Government has been considering is the use of geographic interleaved (GI) spectrum. This is the preferred option. GI spectrum is the unused spectrum space which exists between DTT transmitters. This spectrum is being cleared as digital switchover occurs. The availability of interleaved channels varies with location which means that the spectrum is particularly likely to be attractive to operators wishing to use it for local (i.e. geographically limited) purposes. In comparison to other spectrum options, utilising GI spectrum for carriage of local TV services offers much lower capital and operational costs.

¹⁷ Source: Ofcom – Technical delivery options for local television services in the UK (2010)
http://stakeholders.ofcom.org.uk/binaries/broadcast/tv-ops/Local_TV_FINAL.pdf

Reservation of the spectrum

64. In order to secure this spectrum for local TV purposes, the Government would direct Ofcom (through a section 5 order of the Wireless Telegraphy Act 2006¹⁸) to reserve a small amount (8MHz channel) of GI spectrum at relevant sites across the UK. This spectrum would then be used to create new 'local multiplexes'. (8MHz would allow for three videostreams and Government would be reserving one videostream for Local TV.)

65. The Government is seeking to reserve this spectrum for a number of reasons:

- a. Reservation guarantees access to spectrum for local services, providing bidders with assurance and certainty. Reservation assures carriage for local broadcast whereas an auction would mean bidders would compete on how much they value the spectrum rather than the ability to carry local services. In addition, the Government only intends to reserve a single block of spectrum at each location enough to carry the local services. In most places this is likely to be less than 10% of the available GI¹⁹.
- b. In order to ensure a robust organisation is in place to operate the spectrum and associated multiplexes for local TV, it is important that this company concentrates on providing services and does not have to invest a significant amount in paying auction costs upfront.
- c. As the local services will not be required to actually own the spectrum or operate the local multiplexes, this allows the local licence holders to concentrate on – and invest more in – producing good quality content and programming.

66. This spectrum would be reserved and then awarded through a beauty contest process as a single licence. This will provide the most stable framework rather than awarding the GI in small packages to individual licence holders across the country. The single licence holder will be bound through licence conditions to ensure it will carry the relevant local TV service at each of the locations where the capacity is awarded. The licence holder would be able to carry other commercial services on its multiplex. The GI licence holder will have to build formal relationships with each of the local services to ensure carriage of their services and the appropriate infrastructure is in place.

Benefits of using GI

67. Geographic Interleaved spectrum has significantly lower operational costs for the local TV services than carriage on a PSB Mux. In addition, GI spectrum can provide more localised coverage, i.e. a different local signal can be sent from each transmitter in the UK, rather than being grouped together to provide the regional coverage offered by ITV1 on Mux 2 for example. There are 80 main DTT transmitters across the UK and these can each send a unique signal to be broadcast on GI spectrum. A minority of these will not be able to carry local TV, due to quirks of geography which restrict the coverage or proximity to the continent. Ofcom is currently determining which locations are affected in this way.

68. The benefit of awarding the GI spectrum to one licence holder is that it is more efficient and allows Local TV programme makers to concentrate on producing local content. This allows for greater flexibility and for the market to have more say in the eventual local TV framework. The advantage of separating the award of the spectrum from the award of the local content provider licences is that the spectrum licence will be awarded to an organisation that has the technical capability to manage the spectrum and associated local multiplexes. This directly addresses the barrier of a lack of technical capacity which is particularly an issue at the local level. Responses to the Government's Local Media Action Plan suggested that this kind of capability is highly unlikely to exist among local TV service providers who instead wish to focus on providing content. It means that this approach is particularly important in countering the coordination failure which has been a problem for local TV to date – consolidating the spectrum gives greater regulatory certainty and offers an enabling function for local TV services.

¹⁸ http://origin-www.legislation.gov.uk/ukpga/2006/36/pdfs/ukpga_20060036_en.pdf

¹⁹ <http://stakeholders.ofcom.org.uk/binaries/consultations/cognitive/statement/statement.pdf> – para 2.2.

69. Another advantage in using this spectrum is that it has not already been allocated to any party. Therefore, reservation of the small amounts of spectrum required will not affect the television broadcasts of any existing multiplex operator.

Coverage

70. One issue for GI spectrum is that the coverage is not as comprehensive as other spectrum options. Whereas PSB multiplex coverage reaches 98.5% of the UK population, GI spectrum is around 60%. This means that not all households will be able to receive local TV carried on GI local multiplexes. This is mainly due to geographical factors and possible interference with services using the spectrum bands on the continent. This coverage will affect the number of local services that eventually get up and running.

71. However, it is important to recognise that the possibility of localisation of broadcast using GI is significantly greater than that available on a PSB Mux within its existing regionalisation. GI coverage could offer a larger number of local services across the UK, than the PSB Mux. The greater localisation of services (e.g. through use of GI) and therefore the more local and relevant the content is to local audiences, the greater the benefits for the local audiences. Just because the PSB mux can reach a large part of the population, it does not mean that the programming it is providing is suitably relevant. Thus, even though its reach is less than the PSB Mux, the localism possibilities for GI are much greater.

Costs common to both spectrum options

72. It is important to understand any costs associated with the securing of spectrum for local TV purposes. In fact, neither spectrum option will impose any significant additional costs on affected parties which would be additional to any costs imposed by any new channel being launched (i.e. we are only looking at the opportunity cost of new spectrum and not imposing any new direct costs).

Costs specific to the PSB Mux option

73. Securing capacity on Multiplex 2 would involve re-engineering the Mux to create an additional videostream. This is something which D3&4 may wish to do for its own commercial purposes (for example, carrying its own services or leasing the capacity to another service provider). For the Government to secure capacity on this PSB multiplex would have a significant and very high opportunity cost to the multiplex operators. The opportunity cost is essentially the potentially lost or alternative revenue sources the multiplex operator would otherwise have been able to have made. The amount of revenue is significant to the multiplex operator and is very high. This data is commercially sensitive.

Costs specific to GI reservation

74. If the required amount of GI spectrum is reserved for local TV purposes rather than auctioned because of loss of potential auction receipts, then there is a potential loss of revenue to HM Treasury. However, during previous auctions for similar spectrum in Manchester and Cardiff, the spectrum was released in each instance for its reserve price of £10,000. During the same process, GI in Cumbria was also available but no expressions of interest for this were received by Ofcom and it therefore did not go to auction at all. Whilst those auctions cannot give an exact indication of the price GI could get at future auctions, it is clear that demand and the actual value of this spectrum has so far been extremely limited compared to other spectrum options. DCMS understands there has been some interest in GI for white-space device use (as discussed below) but the interest in GI for DTT-transmission is less clear. In addition, Administered Incentive Pricing (AIP) may apply to the GI spectrum holder. AIP fees are set by reference to the opportunity cost of spectrum in order to provide incentives for efficient use over time. Ofcom has indicated that will not introduce AIP for DTT broadcasters before 2014. Fees for DTT licences in GI spectrum will be considered at that time in line with principles that Ofcom has previously set out²⁰.

75. If some GI is reserved for local TV, there could be some opportunity cost to other businesses which might have wished to use that spectrum for their own purposes. The local nature of GI and variations in availability and reach across the country mean its attraction to a bidder wanting spectrum with nationwide coverage is more limited than other spectrum solutions. In 2007, Ofcom suggested that

²⁰ <http://stakeholders.ofcom.org.uk/consultations/futurepricing/statement>

one of the highest value alternative use of the GI spectrum if not for local TV was likely to be to enhance coverage provided by an additional UK-wide DTT multiplex. The resulting opportunity cost valued in 2007 was between £30m and £400 million over 20 years (excluding Broader Social Value (BSV))²¹. However, there are reasons to suggest that this figure has decreased since the study was undertaken. Ofcom has reconsidered the potential opportunity cost with an indicative view that it may plausibly have reduced to the region of between £0m (zero) to a maximum of £80m over 20 years. There is limited appetite for this spectrum outside of local broadcast purposes because of its inherently local nature and the fact that it is not available nationwide. The likelihood of this spectrum being used to enhance a nationwide DTT multiplex is therefore seen to be low.

76. In Ofcom's previous assessments, any other uses of GI spectrum were deemed to be unlikely or limited to individual geographical areas. The exception was the use of this spectrum for white-space devices²², the potential for which was relatively unknown at the time of Ofcom's previous assessments. As the likely use of white-space devices is still uncertain, it is very difficult to assess the potential opportunity cost of reservation to white-space devices at this point.

77. Further, given that white space devices are able to make use of GI channels which are unsuited to DTT (and therefore local TV) use, there is significantly more interleaved spectrum available for this type of use in the majority of local areas. In most localities, if enough GI spectrum was reserved sufficient to provide a single video stream for local TV (i.e. within a reserved 8MHz channel), there would still be enough GI left over for other purposes, e.g. for Programme Making and Special Events (PMSE) – which utilise stage microphones, outside broadcasts, etc. The GI required for local TV is only one small part of the wider amount of GI available around the country. A 2009 study (based on modelling from Arqiva) indicated that there is approximately 150MHz of interleaved spectrum available overall in 50% of UK locations and this falls to approximately 100MHz in 90% of locations. Further studies have broadly supported this view. If a single 8MHz channel is set aside for local TV across the UK, then reducing the amount of available spectrum by a single channel will lead to a marginal decrease in the amount of white space spectrum of between 5 and 8% in most places. This is therefore unlikely to have a material effect on the viability of white-space devices. Further, in those areas with an already low amount of GI spectrum available, they will already be facing difficulties of utilising white-space devices, and the introduction of a local TV channel is unlikely to make much difference to that. Finally, it can be argued that under the "do nothing" option of this policy, the same amount of GI would be auctioned as is being reserved. If the spectrum was bought at auction, then that would leave behind the same amount of white-space spectrum for white-space devices as if it was reserved for local TV.

Spectrum conclusion

78. It is clear that the PSB Mux spectrum option is attractive in maximising potential commercial revenues. However, it is also a heavy intervention. The operational and engineering costs are also very significant as are the opportunity costs to the PSB Mux operator. Reserving GI spectrum is a far lower cost alternative, offering a more localised approach with no cost to existing business and is likely to give more of the localised benefits of local TV. The use of a single licence holder to own the local GI spectrum will be an important factor in countering any previous coordination failures. GI is therefore the preferred option for local TV provision and the Government is minded to lay an order under section 5 of the Wireless Telegraphy Act 2006 to secure this.

ISSUE 2: 'EPG' PROMINENCE

79. The Government is clear that securing EPG prominence is a crucial incentive for local TV services and important to ensure sufficient audience levels to sustain local services.

80. The Electronic Programme Guide (EPG) is a programme schedule, broadcast alongside digital television services, to provide information on the content and scheduling of current and future programmes. EPGs list channels by logical channel number – LCN (i.e. BBC1 is at Channel 1, BBC2 is at Channel 2, ITV1 is at Channel 3 and so on).

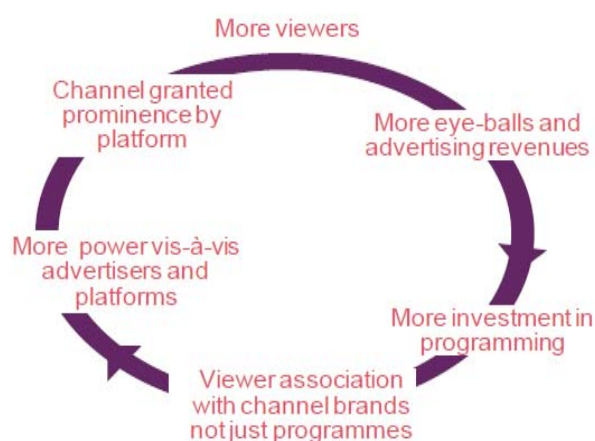
²¹ Pp 66-71, Ofcom: Digital Dividend Review, 2007

²² White-space devices are able to recognise and make use of unused spectrum in particular locations, including interleaved (white space) spectrum.

81. Logical Channel Numbers (LCNs) on the DTT EPG (i.e. Freeview and YouView in due course) are currently determined by Digital Television Multiplex Operators Limited (DMOL), a company owned by the operators of the six DTT multiplexes. Satellite and cable operators determine their own EPGs. All EPG operators have to have reference to Ofcom's code²³ on EPGs when allocating EPG channel numbers. This takes into account the public service nature of the channels, as well as whether they are related to other channels (e.g. ITV1, ITV2, ITV3) and if they belong to a particular genre (e.g. entertainment, children's, adult, etc).

82. The Shott review noted that high EPG prominence will be an important factor in the commercial viability of local TV. The exact relationship between EPG and audience viewing is very complex, but Shott noted the importance of high 'visibility' of local TV, helped by prominent EPG positioning. This was seen to be particularly important in the early stages of local TV development, as it builds its brand. This view was echoed by respondents to the DCMS Local Media Action Plan, the vast majority of whom emphasised the importance of gaining high EPG prominence to the success of local TV business models. Ensuring EPG prominence will therefore be important in addressing the market failures which have so far denied the development of sustainable local TV. Ofcom has produced the following diagram to illustrate the 'virtuous circle' provided to channels by virtue of a high EPG position.

DIAGRAM SHOWING THE "VIRTUOUS CIRCLE" OF EPG PROMINENCE



Source: Ofcom²⁴

83. The Secretary of State's stated aim is for Local TV to achieve 'front page' prominence on the EPG. It is important for local TV to have a single number that viewers will easily find and become the recognised destination for local TV services. The appearance of EPGs varies depending on the brand and technical configuration of the set-top box being used. The pay platforms (satellite and cable) operate their own EPG formats. The Government takes the view that front page prominence means that on DTT, a relatively high LCN needs to be secured. If no action were taken by Government on this issue and a local TV service were to be set up, it is likely that the service would not be prominent on EPGs and instead be situated at a distance from page one, possibly at channel 200 or lower. This is the current EPG policy adopted by DMOL in awarding LCNs without a requirement for "appropriate prominence". Ensuring prominence will put local TV on a par with other PSB channels, which also have a right to EPG prominence.

84. EPG prominence was stated to be a significant factor in the success of local TV by the vast majority of respondents to DCMS' January consultation, the Local Media Action Plan. Respondents stated reasons similar to those above as to why EPG prominence will be vital to ensuring audience figures and consequent revenues, particularly in the early days as local TV 'finds its feet'. Some of the respondents – particularly those looking to create a new national channel with local opt-outs (i.e. an expensive high revenue / high return model) stated a preference for channel number 6, as they saw this as reflecting the PSB nature of the new channel (i.e. as a "sixth PSB channel"). However, others were not specific on a number, simply stating a requirement for a prominent position.

²³ <http://stakeholders.ofcom.org.uk/binaries/consultations/epg/summary/epgcode.pdf>

²⁴ P.29 - Ofcom: PSB and Localness Report, 2010

85. The Government has discussed EPG prominence with the main cable and satellite providers who are willing to offer genre tabs and yellow button access accordingly and envisage services carried on the pay platforms will largely be in the form of video on demand. However, they will review their EPG policies in light of the relevant legislation that is made and take a view on appropriate prominence. This view has to be consistent with the statutory code on EPGs that Ofcom enforces. The Government would hope that the highest, vacant LCN would be awarded to the local TV services established under the Government's proposed framework.

86. Prominence on the EPG can be achieved through both primary and secondary routes, though the outcome of the two approaches could differ as outlined below.

Primary legislation route

87. Primary legislation would involve Government intervention to provide a more prescriptive approach to securing EPG prominence. This is a very interventionist approach, whereby Government would make decisions which have previously been left to the market to determine under a relatively flexible regulatory regime.

88. Enacting primary legislation would ensure that local TV were placed at, for example, Channel 6 on all television platforms. Determining the EPG through primary legislation would also allow Government to determine the position of other services on the EPG if it were so minded. This would be a very difficult process, with likely significant objection from those channels currently occupying the current channel number as well as by EPG providers. However, it remains a route open to Government to consider.

Secondary legislation route (preferred option)

89. Secondary legislation could be used to achieve EPG prominence for local TV. This could be done by making an order under section 310²⁵ of the Communications Act 2003 which would list the local TV stations in order to achieve prominence. The local stations to be listed would be those defined as such following a section 244 order under the Communications Act 2003 (discussed in the next section). The interpretation of this appropriate prominence is up to the individual EPG providers. However, the EPG providers must comply with Ofcom's statutory code that underpins this section.

90. DCMS has held discussions with DMOL, Sky, Virgin and Youview on the issue of EPG prominence. Whilst no guarantees can be given before legislation is implemented, it is clear that the main EPG providers recognise they would need to offer appropriate prominence for local TV services if these services were listed under section 310. The Government would like a single destination for audiences to go to access the local TV services created under this framework.

91. Subject to due process, the Government hopes that EPG prominence on DTT could be secured on logical channel number 8 (currently vacant) in England and Northern Ireland and another high number for services in Wales and Scotland (where channel 8 is already in use). Appropriate prominence granted through a section 310 order does not have the power to push channels off their existing slots and therefore the local TV services will only be able to be awarded vacant LCNs, representing no cost to existing businesses. For satellite and cable homes, if local TV were to be available on those platforms, DCMS anticipates access to local TV would be through the yellow button on the remote control, genre tabs or other accessible options.

92. Secondary legislation would therefore not lead to award of channel number 6 for local TV (as a number of Local Media Action Plan expressions of interest sought), but a prominent number on Freeview that will be determined in accordance with the DMOL policy and Ofcom's statutory code.

Costs of ensuring EPG prominence

93. Ensuring EPG prominence for local TV through secondary legislation may have a small consequent impact on other services further down the EPG i.e. a new channel entering the EPG at

²⁵ <http://www.legislation.gov.uk/ukpga/2003/21/section/310>

channel 8 is effectively the insertion of one new service in front of all those channels listed after channel 8. This would mean those flicking through their EPG by pressing the 'up' button would go past one more channel (the local TV service) before reaching the next channel at e.g. Channel 9. This is likely to have very little impact on those services after Channel 8 as they already have a brand presence and one more 'click' is unlikely to be particularly detrimental. There are no monetary figures available on the economic cost of this, as it is extremely difficult to assign a value to EPG, though the cost to existing services is thought to be very limited. The difficulty in assigning a value is further compounded by the fact that established channels may not place as much value on their EPG position as new entrants which need to build a brand.

94. Public service broadcasting channels generally enjoy the right to high EPG prominence and new PSB-like requirements, embodied in a local licensing regime could apply to the local TV services that would justify prominent positioning. It should also be noted that under the secondary legislation route, Government is not imposing any additional rules other than to allow local TV an equal status to other PSBs. i.e. if BBC were to launch an additional general entertainment channel, it too might have a case for being allocated Channel 8.

95. Significant change to the EPG listings however through primary legislation is more interventionist and may displace services from their existing slots. This may also impose some additional costs on EPG providers and set-top box manufacturers if the EPG is significantly altered from how it is currently constituted. Secondary legislation would have a lower impact, simply requiring EPG providers to apply their existing codes (which take into account services listed under section 310 of the Communications Act) when determining the channel number for local TV.

96. Both methods therefore have the potential to have limited impact if they only introduce an additional service at e.g. channel 8. However, primary legislation is a significantly more interventionist way of achieving this prominence. Primary legislation means that the Government takes direct control and is mandating the EPG with an intervention in regulatory compliance. Government does not wish to become interventionist where this can be avoided and would feel uncomfortable in determining what is potentially better determined best by EPG providers providing they take account of secondary legislation requiring appropriate prominence for PSBs and similar services (such as local TV).

Summary of EPG prominence

97. Initiating primary legislation for EPGs is something the Government intends to keep under review but recognises that this would be a significant new regulation in the market place. The significant intervention outlined above illustrates the impact of primary legislation. The fact that a route exists for the Government to take through secondary legislation is preferable. While this may not lead to securing channel 6, it would lead to an appropriately prominent position. Therefore, the preferred option is to follow the secondary legislation route to achieve prominence for local TV within the existing regulatory framework. The secondary legislation will require local TV (as licensed by Ofcom) to be given appropriate prominence by EPG operators by listing the section 244 licences under this section. This means that only those local TV service providers holding a section 244 local licence can enjoy appropriate EPG prominence. The Government will continue to discuss the interpretation of the secondary legislation with Ofcom and EPG providers to ensure that the objectives of the legislation are met. These options will be finalised over the coming months, in order to ensure they provide the appropriate level of prominence. The Government expects EPG providers will clarify the precise prominence on offer once the secondary legislation has been passed.

98. In the unlikely event that this does not achieve sufficient prominence for local TV or the prominence is insufficient to ensure commercial viability, then the Government will look again at whether electronic programme guides should be regulated through primary legislation, as part of its wider analysis of future Communications legislation.

ISSUE 3: LICENSING

99. The third component to the regulatory matrix around a new local TV framework is the licensing regime that will apply to local services. The licensing regime is fundamental to tie together the carriage on spectrum with appropriate EPG prominence. The options the Government has considered are using

the existing licensing regime which Ofcom already has the power to apply (but which would not allow Ofcom to insert and impose conditions around local content) or creating a new and robust licensing regime that is specifically targeted to local TV and ensures that the services that are provided under the licence (which justify access to spectrum and EPG prominence) have the right conditions in place.

100. Licence conditions are necessary to ensure local content (of a public service nature) is guaranteed to be on local TV and also that the local services and the spectrum providers are appropriately related and the two can work together for the ultimate benefit of local TV audiences. In particular, a local licensing regime will ensure local content is broadcast, which will ensure the positive benefits of local TV can be realised. This cannot be achieved through the existing licensing framework. A current Digital Television Programme Service (DTPS) licence allows the holder to broadcast on a DTT multiplex but it would not allow Ofcom to insert and impose conditions around local content. A Restricted Service Licence (RSL) similarly does not allow Ofcom to impose additional conditions.

The section 244 Order²⁶

101. The Government intends to lay an Order under section 244 of the Communications Act 2003. This Act already contains provision for the creation of a local licensing regime. The order will create a robust licensing regime for both the award of spectrum and the local TV content providers. The order will set out the parameters around the licensing regime – both for the GI spectrum and for the local content. This regime will create a licensing framework that sets out conditions linked to section 244 statutory requirements; the service requirements from licence applicants; and other conditions that Ofcom may deem appropriate in due course. Ofcom will use the new regime created under s.244 to license the GI and the new local TV services.

102. In order to create an appropriate spectrum licence, the Order will set out the licence duration and criteria for the beauty contest²⁷ award process (for example, the ability to maintain service) and the conditions contained in the spectrum licence would include a requirement to carry the relevant local TV services.

103. It is envisaged the new local content licensing regime will be called a Local Digital Television Programme Service (L-DTPS). The s.244 order will create this licensing regime and set out the parameters of the regime. Ofcom will then use this to develop the process of award and to determine the conditions required of licensees. The local content licensees will be required to comply with existing minimum requirements on broadcasters, e.g. the taste and decency rules contained within Ofcom's Broadcasting Code, but then additional conditions will ensure the provision of local content.

104. The Government expects that the new local licensing regime will include the following:

- a. Licence duration
- b. Licence and spectrum fees
- c. Degree of local content (which caters for the tastes, needs and interests of people living and working within a locality)
- d. Relationship with the spectrum licence holder
- e. Enforcement and revocation

105. Following the s.244 order, it is expected that Ofcom will consult on guidance and licence award process in early 2012.

Locations for Local TV licences

106. At this stage, the exact locations which will receive Local TV are still to be determined, and will be dependent on the transmitter coverage areas. It is envisaged that the s.244 Order will allow Ofcom to make a final determination on the locations through its award process. This will allow the market to decide where it believes Local TV should exist and therefore the licences that will be awarded for the

²⁶ <http://www.legislation.gov.uk/ukpga/2003/21/section/244>

²⁷ Beauty contest: a competitive process that assesses bids on the strength of their offer against pre-determined criteria and the credibility of the organisation (including financial robustness) behind the bid.

local TV service providers. The Government expects to publish an indicative list of locations in July 2011 when it formally announces its proposals.

Costs of 244 licensing

107. The introduction of a s244 licensing regime will not impose any additional direct costs to business. It is an enabling piece of legislation. Only those who apply to become a local TV provider will be caught by the conditions imposed by the licence and this will ultimately be a commercial decision for those businesses. It will not create any additional burdens on businesses which are not interested in local TV.

Benefits of 244 licensing

108. A targeted, robust and fit-for-purpose local licensing regime is vital to the success of local TV. It will provide clarity to bidders of what is expected of them and provides Ofcom with an additional tool in its regulatory toolkit. A local licensing regime ties together the other aspects of this policy, ensuring access to spectrum for local services and being directly related to the s310 order for EPG prominence. Finally, the local licensing regime will ensure that local services deliver local content that is relevant to their local communities. This is fundamental to ensuring that the benefits of local TV outlined in the “Benefits” section of this document are achieved. Without an appropriate licensing regime, these benefits would not be guaranteed.

WIDER IMPACTS OF THE LOCAL TV FRAMEWORK (regardless of option chosen above)

Competition and impact on existing local media

109. Enabling local TV through the introduction of a new regulatory framework will potentially introduce a marginal increase in competition to the media market. This competition may be felt at both a local and a national level, though more likely at the former.

110. The idea of local TV has caused some concern amongst existing local media providers which fear that local TV will take audiences away from other local media sources such as radio and newspapers. Some local newspapers are concerned that there will be no incremental advertising revenue for local TV, which would therefore cannibalise the revenues that currently go to local media budgets. Local press is mostly dependent on classified advertising revenues and more of a display-driven business.

111. The emergence of local TV may therefore increase competition with existing broadcasters and local media for advertising revenues. Total television advertising (net £3.1bn in 2010²⁸) across the country would likely be broadly the same, but the split would increase with the addition of market players at a local level (i.e. a transfer of revenue). However, there remains a question over how far local TV will take a share of the national advertising revenues. This is something the Government is continuing to explore as it could prove to be a valuable revenue source for local TV. It is difficult to determine what the advertising impact of local TV would be, but effects may include:

- a. It may simply result in a transfer of revenue amongst the broadcasters. This may particularly be the case if current broadcasters decide to provide local TV services.
- b. It may result in national broadcasters lowering the price of advertising on their networks in order to retain custom if local TV is seen as a more attractive proposition by advertisers. An O&O report²⁹ for Ofcom suggested local TV might have a split of advertising of 30% national and 70% local. Based on this split it seems unlikely that the effect of local TV on national broadcasters would be significant.
- c. Other local media that uses advertising as a source of revenue may have its revenue affected by increased local competition, which may result in them needing to lower their advertising rates. However, if local tie-ups occur, then this would constitute a transfer of

²⁸ Ofcom, The Communications Market 2010 – p.17

²⁹ O&O report for Ofcom (2008) The Sustainability of Local Commercial TV – p.16.

revenues. The Shott Review identified £5m of local advertising to be achievable for local TV, but did not determine whether this was additional to the existing local advertising market. The local media sector as a whole takes £2.5bn in advertising revenue each year, and so the introduction of local TV is unlikely to create a significant dent in this.

- d. Indeed, the introduction of local TV may actually cause increased demand for advertising as some companies find local TV an addition to the way in which they advertise or it brings new business from companies who think local TV is better at targeting their market and who have not previously advertised at all. This use of latent advertising may help to negate some of the effects discussed above.

112. It is difficult at present to assess which of the above effects may materialise, how they would work together and the overall impact that would have. However, some limited transfer of revenues is likely to occur between local TV and either existing broadcasters or other local media.

113. To ameliorate the negative impact on local newspapers and radio, the Shott Review noted that cross working and potentially cross ownership would be highly beneficial and should take place where possible in the new local media landscape. The Government has therefore already acted to remove some existing regulation around local cross-media ownership in order to enable such working at a local level. The regulation was removed on 15 June 2011 and will allow local media to pool resources and expertise to build new sustainable business models and to work across different platforms including local TV³⁰.

114. Existing local media operators are now free to be involved in local TV. Local media already understand their markets and many responses to the Government's Local Media Action Plan could see the potential opportunities for existing local media to cross the sector and apply new business models around local TV provision. A local bid to run local TV is likely to be made stronger by involvement of local media providers, who could provide the necessary journalistic knowledge and news-gathering background. Local TV can therefore be seen to be bringing benefits to the wider local media environment and this diversification could play an important role in the continuing survival of local media.

BBC Contribution

115. Through its licence fee agreement in October 2010, the BBC has agreed to contribute up to £40m to local TV, subject to any necessary regulatory approval. This will be an important measure in overcoming the initial market barriers local TV services have faced and ensure the sustainability of the local services. The contribution is divided into up to £25m towards capital start-up costs in 2013/14 and up to a further £5m per annum of ongoing funding from 2014/15 for three years to acquire content from local services for BBC use.

116. The exact nature of the use for the BBC funding is being determined and will be set out before the formal Ofcom bidding process for licences begins. The BBC contribution has been included in the summary sheet on page 4 of this Impact Assessment as a cost (to the BBC) and as a benefit (to prospective local TV providers and consequently to licence fee payers and society). The discounted figure over the 4 years of the contribution is £39m.

117. By 2017 (when the BBC funding arrangements conclude), the local services will be expected to operate without any further call on public funds. Given the proposed framework and the funding profile (that has yet to be fully determined in line with state aid considerations), the Government expects the capital costs and most of the operational costs will have been amortised in the first three years leaving a very low cost to the local services to cover transmission and therefore contributing to the local TV services' long-term sustainability. At this point, the Government believes that the local services will have transitioned from start-up enterprises to functioning commercial stations and a combination of low operational costs with established market presence and revenues will place the local TV services on a sustainable footing.

³⁰ http://www.culture.gov.uk/what_we_do/broadcasting/7235.aspx and Ofcom (2010): Local Media – Cross-Media Ownership Rules

Equality impacts

118. Local Television services will be subject to Ofcom's Code on Television Access Services which sets out the requirements on subtitling, sign language and audio description ('television access services') that apply to television services licensed in accordance with the Communications Act 2003, the Broadcasting Act 1996, or the Broadcasting Act 1990. Under this code, a television service achieving an average audience share of all UK households of 0.05% or more may be required to provide subtitling, signing and audio description, subject to passing an affordability threshold and not facing technical difficulties that are impracticable to surmount. These obligations would apply from the first anniversary of the launch of the service.

Rural impacts

119. It is the Government's intention that Local TV will be made as widely available as possible. At this stage, the exact locations which will receive Local TV are still to be determined. It is highly dependent on the transmitter coverage areas and on the population size which can support advertising funded content. It is envisaged that the section 244 Order will allow Ofcom to make a final determination on the locations through its award process. That will allow the market to decide where it believes Local TV should exist and therefore the licences that will be awarded for the local TV service providers.

120. It is unlikely that in the first tranche of local TV services, there will be a significant rural element to the locations. This is because the costs of running a station will require a certain revenue threshold to be met which is only possible through reaching a high number of viewers (more likely found in concentrated conurbations than in urban areas). However, as local TV develops its brand and in the future when it can be broadcast through IPTV instead, it is anticipated that it could reach larger numbers of rural-based audiences. Once local TV is available in rural areas it could be an important source of local information for audiences and a method of ensuring community cohesion. It is important that local TV gets an early start on DTT – which may be more limited to conurbations – so that it can build its brand and ensure a strong framework is in existence which can be utilised by future rural local TV on IPTV.

Administrative Burden

Ofcom administration

121. Ofcom has informed DCMS that it does not believe that its other key spectrum work (e.g. auction of 600MHz, 800MHz and 2.6GHz spectrum) would be impacted by a Government reservation of GI for the purposes of local TV. While implementation of this policy would require some technical work, including identification of sites and analysis of technical parameters, this additional work is manageable and could be accommodated within existing resource allocations.

122. The main awards process for local TV would be run by the content and licensing teams at Ofcom, who would oversee the drafting of consultations, statements, invitations to apply and the assessment of applications. Ofcom anticipates that in accommodating this extra work, there could be some impact on the 'business as usual' of the licensing team, e.g. it may take a bit longer to complete the next round of Community Radio licensing. There would, however, be no impact on the overall level of financial resources required by Ofcom.

Sunset clause

123. A sunset clause will not be included in this legislation. This is because the policy does not impose regulatory burdens but is intended to create a framework to facilitate local TV.

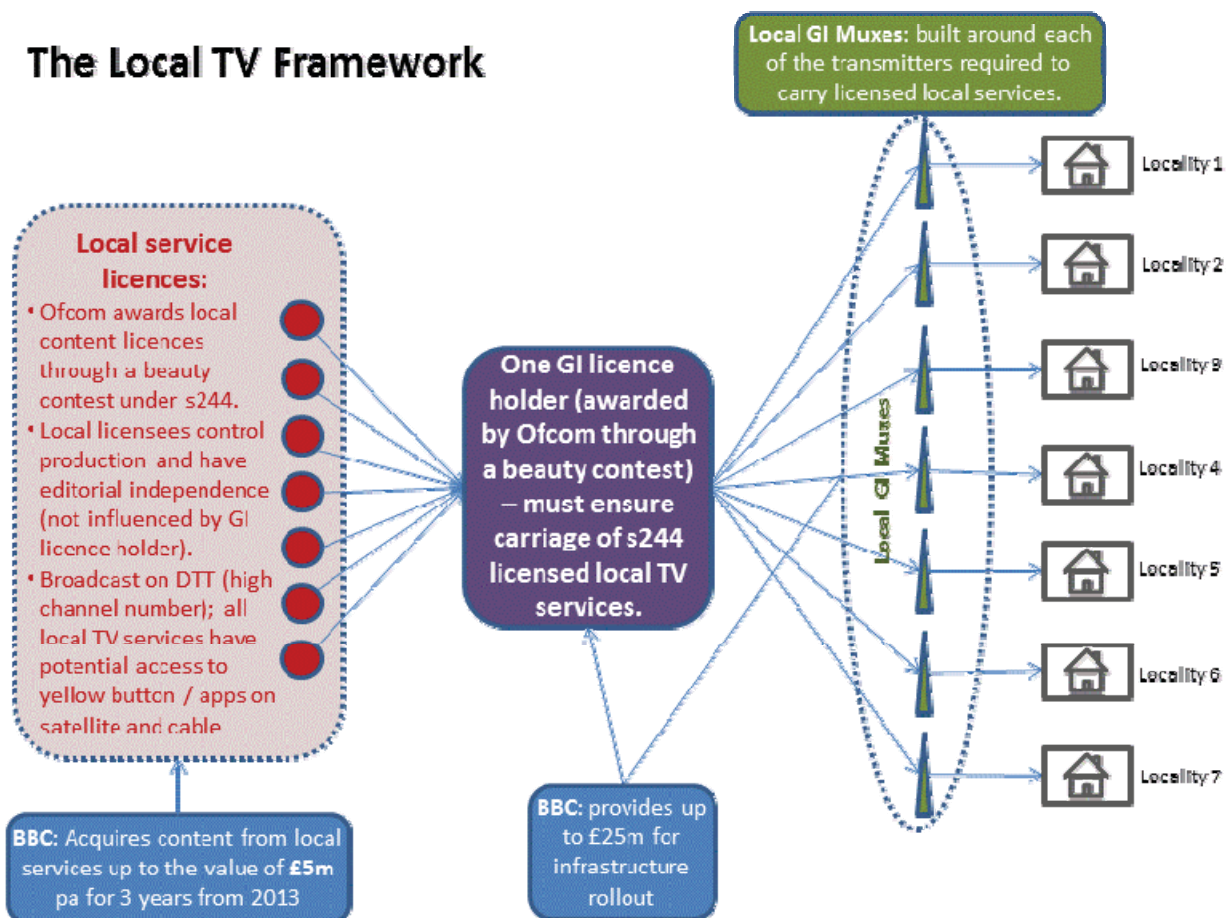
Conclusion, summary and description of implementation plan

124. The Government has committed to enable the development of local TV across the UK. The Government is not looking to mandate existing providers to provide local content. Instead, it is looking to break down barriers and then incentivise the market to develop local TV itself. The barriers identified at the start of this evidence base (coordination failure, access to spectrum, access to advertising and broader social value) will be addressed in order to create incentives and an opportunity for local TV. The policy aim will be achieved in the least burdensome way.

125. The framework for local TV is based on the arguments outlined in the Evidence Base above. The costs and benefits of the available options have been considered and the lowest cost choices have been identified as the most appropriate. These will not add burdens to the market but will achieve significant benefits – both for those involved in producing local TV and those audiences who watch local TV. This is not an imposition on the market but an opportunity.

126. The local TV framework will encourage the development of local stations. The local services will be licensed through a new local licensing regime administered by Ofcom (and created following an order under section 244 of the Communications Act 2003). The local services will not be expected to manage the local TV spectrum. Instead, GI spectrum will be reserved at appropriate locations around the country (through a section 5 order of the Wireless Telegraphy Act 2006) and through a beauty contest process awarded by Ofcom to one licence holder. They will be licensed to use the GI spectrum with an obligation that part of this spectrum is used to carry services. Local services will achieve EPG prominence, following the laying of a s.310 order of the Communications Act 2003.

127. This framework is illustrated below.



128. This option is low impact in terms of other businesses. It is designed to ensure local voices are heard and individual stations can exist at a local level. Ultimately the success of the policy will be for the market to determine. If the market takes the incentives proposed in this paper, then we expect the development of local TV across the UK. Interest in the policy from companies and individuals has so far been very high (e.g. shown through responses to the Government's Local Media Action Plan), and this interest is expected to manifest itself in the emergence of new local TV services.

129. The timetable for implementation is as follows:

- Q3 2011: Publication of final proposals (expected end of July)
- Q4 2011: Secondary legislation laid and comes into effect
- Q1 2012: Ofcom issues a consultation on a new local licensing regime and draft Invitation to Apply (ITA) for (i) the Local Multiplex licence and (ii) the first tranche of local content licences.
- Q2 2012: Ofcom issues a statement on the outcome of the consultation and issues final ITAs
- Q3 2012: Ofcom assesses bids and awards the Local Multiplex licence and first tranche of local content licences.
- From Q3 2013: Expectation that first services will be on air

Annexes

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: To review the existing policy through a political commitment to review.
Review objective: To ensure the policy approach taken is the most appropriate and is achieving the objective of enabling the emergence of local TV. And to ensure that the regulations are operating as expected – e.g. the local licensing is having the desired effect, the secondary legislation is achieving appropriate EPG prominence, and the GI spectrum is accessible and appropriate for local TV services.
Review approach and rationale: This is yet to be agreed, though initial scoping of what would be included is planned to occur before the year end, as the exact details of the 244 local licensing regime are confirmed.
Baseline: Local TV services available to local populations as at 01 November 2011.
Success criteria: These will be developed along with the scoping of the review. These are likely to include number of local TV services available and their reach, as well as specifically considering the success of the three individual interventions: reservation of spectrum, achieving appropriate EPG prominence and creating a new regulatory regime.
Monitoring information arrangements: There are a variety key data collections that are currently in place and may allow for systematic collection of data depending how Local TV stations emerge, including BARB TV viewership data, the DCMS national survey (Taking Part) which could be turned to collecting data against wider social objectives related to Local TV and a variety of business data which can be used to look at the success and sustainability of Local TV companies.
Reasons for not planning a review: N/A

Annex 2: Glossary

AIP: Administered Incentive Pricing. A way of allocating spectrum on an administrative basis but then charging for use of that spectrum at a later date, so as to promote efficient spectrum use. Ofcom expects to introduce AIP. It will not implement AIP before 2014, and will consult nearer the time on any proposed fees.

BARB: Broadcasters' Audience Research Board. The organisation responsible for providing the official measurement of UK television audiences.

Beauty Contest: a competitive process that assesses bids on the strength of their offer against pre-determined criteria and the credibility of the organisation (including financial robustness) behind the bid.

BSV: Broader Social Value. Taking into account the social value as well as the economic value – e.g. citizens' well-being, improved knowledge, ability to understand the decisions that affect them, etc.

D3&4 (aka Multiplex 2): A PSB Multiplex, jointly owned by ITV and Channel 4, currently used to broadcast 8 videostreams.

DCMS: Department for Culture, Media and Sport.

DDR: Digital Dividend Review. Ofcom analysis of how to award the spectrum freed up by digital switchover – the 'digital dividend' – for new uses.

DMOL: Digital Multiplex Operators Ltd. A company owned by the operators of the six digital terrestrial television (DTT) multiplexes, it provides technical platform management for the DTT platform and sets and administers policy for the platform, including EPG listings.

Digital Switchover: The existing analogue TV signal will be switched off and replaced with a new, stronger digital TV signal. Taking place in stages across the UK, nearly half of the UK's TV regions have already "switched over".

DTPS: Digital Television Programme Service licence. A digital television broadcast licence issued by Ofcom.

DTT: Digital Terrestrial Television.

EPG: Electronic Programme Guide. This is a programme schedule, broadcast alongside digital television services, to provide information on the content and scheduling of current and future programmes. EPGs list channels by logical channel number (LCN).

Freeview: The main free-to-air digital TV platform in the UK.

GI: Geographic Interleaved spectrum (also known as "Interleaved Spectrum" or "white-space spectrum"). Defined in this context as gaps between DTT transmissions. These gaps arise because a TV transmitter in a particular location makes use of a specific set of frequencies to transmit its services. The same

frequencies cannot easily be used by a neighbouring transmitter because of the potential for interference. As a result, some spectrum perfectly suitable for lower power transmission is left free of DTT use in many locations. This is the interleaved or white-space spectrum. The term geographic interleaved spectrum (GI) simply refers to a package of interleaved spectrum in a particular location.

HD: High Definition. Video that has a substantially higher resolution than that of traditional standard-definition television systems.

HMT: Her Majesty's Treasury.

IPTV: Internet Protocol Television. IPTV is a method of delivering linear and on demand content to TV sets using Broadband in addition to and/or instead of conventional DTT, Satellite or Cable broadcasts.

LCN: Logical Channel Number. Each channel on the EPG has a logical channel number, allocated by the EPG provider. e.g. The LCN of BBC1 is Channel 1.

Local TV: Television which is relevant to viewers in a local area.

Ofcom: Office of Communications. The regulator for the UK communications industries, with responsibilities across television, radio, telecommunications and wireless communications services.

Multiplex / Mux: A number of signals or streams of information transmitted at the same time in the form of a single, complex signal. The separate signals are then recovered by the DTT receiver (set-top box).

PMSE: Programme Making and Special Events. Interleaved spectrum is sometimes used for programme making and special events – e.g. stage microphones, outside broadcasts, etc.

PSB: Public Service Broadcast(-er/-ing). The UK has five public service broadcasters: BBC, ITV, Channel 4, S4C and Channel 5 – licensed to provide content for the public with certain public service conditions attached to their licence – e.g. to provide news.

Shott Review: Independent review undertaken by investment banker Nicholas Shott into the commercial viability of local TV in the UK. The Review was submitted to DCMS in December 2010.

SRP: Structural Reform Plan. Government department plan setting out priorities and milestones.

Transmitter: An electronic device which, with the aid of an antenna, produces radio waves, which transmit television services.

White space devices / cognitive devices: Electronic devices which are able to recognise and make use of unused spectrum in particular locations, including interleaved (white-space) spectrum. Devices would only be allowed to access interleaved spectrum that is unused by PMSE and DTT. At present products are largely experimental, but the technology could be more widely deployed in future.

YouView: Will be internet-enabled television – combining Freeview with internet catch-up and on-demand services. Still to be launched.

Annex 3: Additional references (to those on page 6)

DCMS (2011 – January) Local Media Action Plan

http://www.culture.gov.uk/images/consultations/ConDoc-Local_Media_Action_Plan_190111.pdf

DCMS (2011 – June) Summary of Local Media Action Plan responses

http://www.culture.gov.uk/images/consultation_responses/LocalTV-Summary_LMAPresponses.pdf

DCMS (2010) Structural Reform Plan

www.culture.gov.uk/images/publications/SRP_DCMS_150710.pdf

Digital TV Group (2011) UK DTT features for support of Local TV services,

<http://www.dtg.org.uk/publications/books.html>

Ofcom (2010) Local Media – Cross-Media Ownership Rules

http://stakeholders.ofcom.org.uk/binaries/consultations/morr/response-local-media/Local_Media_Final_Document.pdf

TNS-BMRB (2009) Social Research on Attitudes to supporting non-BBC regional news from the TV licence fee

http://webarchive.nationalarchives.gov.uk/20100407120701/http://www.culture.gov.uk/images/research/TNS-BMRB_DBsupportregionalnews_finalreport.pdf

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Ofcom (2010) PSB and Localness Report

<http://stakeholders.ofcom.org.uk/binaries/broadcast/tv-ops/psb-localness.pdf>