The role of independent producers and independent production quotas in local TV

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Introduction

1. The Government has recently taken steps to enable the emergence of a new local TV market through the creation of a local TV framework supported by secondary legislation. This was developed in response to historic market barriers and a legislative regime geared to national broadcasters; both of which had worked against those interested in running local TV services. Earlier in 2011, the Government also removed the rules on local cross-media ownership\(^1\); but considers that more can be done to remove regulations which are inappropriately burdensome to local TV providers. Removal of these burdens should in turn encourage greater participation in the local TV bidding process and support the long-term success of local TV.

2. In *Local TV: Making the vision happen*\(^2\), published in December 2011, the Government stated its intention to consult on proposals to remove both the obligation for local TV licensees to commission at least 10% of qualifying content from independent producers, and to reduce the current disincentives for independent producers around owning local TV services. The Government believes that the removal of these two related barriers to participation in local TV will help to ensure the long-term success and sustainability of this new market.

3. The purpose of this consultation is to obtain views on two legislative proposals as follows:

   a) removal of the 10% independent production quota applying for local TV digital programme services; and

   b) amendment of the definition of “independent producer” to remove the ownership ceiling which limits the stake an independent producer may hold in a local TV broadcaster without forfeiting its “independent” status. Government’s preference is to completely remove the ownership ceiling (currently capped at a 25% stake in a broadcasting company), so that independent producers could own 100% of an entity holding a local digital television programme service licence (L-DTPS or local TV service licence) whilst maintaining independent status in order that such companies could continue to benefit from the independent content quota in respect of their independent production work at the national level. Government is prepared to consider an alternative approach of increasing the ownership ceiling from 25% but capping it at a minority stake (i.e. a maximum 49% shareholding). If an amendment to the ownership ceiling is made, Government will preserve the

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distinction between “independent producer” and “broadcaster” in the local context by ensuring that any independent producer owning a local TV service licence can only retain its “independent” status where broadcasting does not become the main activity of the organisation.

4. This is a public consultation and Government is seeking interested parties’ views on the proposals and in particular would welcome responses to the questions set out at the end of this document. As local TV is a largely untested market, we are particularly interested in receiving any relevant data that stakeholders may wish to supply in relation to these proposals. We would be interested to hear views from all interested parties and in particular those from potential local TV providers and the independent production sector.

5. If, following the outcome of the consultation, the Government decides to proceed with these proposals; the changes would be achieved through an Order made by the Secretary of State under sections 244 and 277 of the Communications Act 2003 and a revised notification from the Secretary of State to Ofcom.

Impact Assessment

6. A ‘consultation-stage’ impact assessment has been prepared for the proposals set out in this consultation. The impact assessment clearly shows that the suggested changes do not impose a burden on industry or the third sector. Instead, the proposals are de-regulatory and offer opportunities to improve the chances of success of local TV.

How to respond

7. Consultation responses should be submitted to DCMS by 08 March 2012:

(a) By email, to local.tv@culture.gsi.gov.uk

or

3 The definition of “main activity” for the purposes of this legislation could be defined by reference to a given percentage of the independent production company’s revenue.

4 [http://www.culture.gov.uk/what_we_do/broadcasting/7235.aspx](http://www.culture.gov.uk/what_we_do/broadcasting/7235.aspx)

5 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes, these are primarily the Freedom of Information Act 2000 (―FOIA‖), the Data Protection Act 1998 (―DPA‖) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the DPA, and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

The consultation is guided by the Government’s Code of Practice on Consultation which is available at: [http://www.bis.gov.uk/policies/better-regulation/consultation-guidance](http://www.bis.gov.uk/policies/better-regulation/consultation-guidance)
8. The Government is consulting for a shorter period than normal because most interested parties have already been heavily consulted on the local TV plans. In addition, this is a focused issue, affecting a relatively small part of the overall TV production market. Subject to the outcome of the consultation, the Government’s ambition is to implement the proposals ahead of the Ofcom licensing award process for local TV thereby giving certainty to the market during the forthcoming bidding process.
Background

The Local TV Framework

9. In implementing its new framework for local TV, Government wants to remove unnecessary burdens and restrictions that might discourage interested parties from participating in the bidding process. Removing such barriers will help deliver the long-term diversity, success and sustainability of local TV.

10. The local TV framework does not replicate the existing regional TV structure, but rather seeks to facilitate the creation of a new local market at a sub-regional level. Existing regional services (such as those offered by the BBC following the national news) will remain in place. The local TV framework being implemented at present envisages an entirely new service, separate from existing regional and national services. Local TV services will be at a new channel number, broadcasting (at a minimum) on Digital Terrestrial Television (DTT), with content which is relevant to the local population. This might include news, sport, current affairs, and entertainment. The local TV channel providers will be able to source content through any method they wish and so could broadcast a mixture of content produced in-house; content commissioned from external producers; and networked content.

11. In December 2011, the Government laid three pieces of secondary legislation before Parliament to establish the local TV framework. These orders will (1) make spectrum available for local TV services, (2) create a new local licensing regime, and (3) secure appropriate prominence on Electronic Programme Guides (EPG) for local TV channels. The new legislation will allow Ofcom to implement a local licensing regime for local TV this year.

12. Ofcom will license individual standalone local services, each serving a different location. The services will be required to provide content which is of relevance and interest to the local area. In order to ensure the long-term sustainability of these new services – which are expected to contribute to local democratic debate, media plurality and the Big Society – the Government has already begun the process of removing barriers and regulations which are inappropriately burdensome for local media providers. We now want to extend this process by removing the independent production quota obligation for local TV.

13. The Government also believes there should be no particular licence ownership restrictions, other than the existing restrictions contained in the Broadcasting Act 1990 which prevent, for example, an advertising agency or a political party from holding a

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6 Local cross-media ownership rules. See link at footnote 2
licence. The Government has no pre-conceptions around who might hold a licence because it will be a matter for Ofcom to determine through its ‘beauty contest’ licensing process. We envisage partnerships emerging between existing local media (e.g. local newspapers and local radio stations) and new entrants and believe that the range of locations being advertised may encourage smaller, local groups (including educational establishments and community groups) to bid alongside more established media businesses.

14. However, the existing regulatory framework prevents independent production companies from taking full advantage of the opportunity to become involved in operating one of the new local TV services.

15. Government wants to ensure that the barriers to participation in local TV are reduced for all potential providers, and it is keen for independent producers to have the same opportunity to bid for local TV licences as is available to other potential providers as explained in the proposals in this consultation.

16. Whilst the Government has already had much interest from potential local TV providers, the market has not yet been fully tested. This is because the first phase of local TV licensing has not yet taken place (Ofcom will advertise licences once they have consulted on the process and the relevant new legislation is in place; the first licences are expected to be advertised by Ofcom during April/May 2012).

Independent producers

17. The independent production sector, which supplies a range of content to national broadcasters in the UK, forms a well-established and successful part of the UK’s media market.

18. Its growth has been fostered in part by the requirement on existing broadcasters to commission at least 10% of qualifying content from independent producers. In 2009 independent producers received over £1billion for original productions from public service broadcasters alone.

19. For the purposes of this 10% independent production quota, the existing legislation – which was designed with national and regional, rather than local, TV services in mind – has distinguished between the concept of a “broadcaster” and an “independent producer” (i.e. a producer which is independent of a broadcaster).

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7 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.

8 Section 277 of the Communications Act 2003 requires public service broadcasters to carry at least 25% of commissioned independent production content. Section 309 applies a 10% quota to all other licensed digital television programme services. In addition, the independent production quota requirements of the AVMS Directive are implemented by way of a notification under section 335 of the Communications Act 2003 from the Secretary of State to Ofcom that the requirements be included as a licence condition.

9 Definition of qualifying programmes – s309(1) of the Communications Act 2003.
20. To establish this distinction, the legislation requires that a production company may only hold up to a 25% stake in any broadcaster if it wishes to retain its “independent” status; a producer is not regarded as “independent” if it owns more than 25% of a broadcaster. Programmes commissioned from a producer with more than a 25% share in a broadcaster would therefore not count towards a broadcaster's fulfilment of its independent production quota. This means that broadcasters are unable to meet their independent production quota using their own productions (indeed, doing so would undermine the purpose and integrity of the quota system).

21. While this regime has worked very effectively at the national and regional levels for which it was intended, it will (in the absence of Government intervention) also apply to the new sub-regional local TV sector because the current legislation does not discriminate between national, regional and local TV broadcasting. The Government believes this should be changed at the local level because imposing an independent production quota system at the local level would pose an undue to burden to the nascent local TV services, and could act as a barrier to entry for producers who might want to run a local TV service without losing the benefits of its independent status.

**Legislative Framework**

22. The existing legislation that applies is The Broadcasting (Independent Productions) Order 1991 as amended (“the 1991 order”) and the Communications Act 2003. European legislation, the Audiovisual Media Services Directive 2010, also applies to the UK market in this case. For ease, the current legislation is summarised below.

**Independent Production Quotas**

23. European legislation places an obligation on Member States to ensure that, where practicable, broadcasters reserve at least 10% of their transmission time (excluding the time allotted to news, sports, events, games, advertising, teletext services and teleshopping) for European works created by producers who are independent of broadcasters. In the UK, this requirement was implemented by way of a notification from Government to Ofcom under section 335 of the Communications Act 2003 which required Ofcom to include, in every television broadcasting licence, a condition that such licensees comply with the quota.

24. However the European legislation goes on to specifically permit Member States to exempt local TV services which do not form part of a national network from this quota requirement. This would require the notification made under section 335 to be clarified.

25. Domestic legislation places an obligation, again imposed through licence conditions, on every digital television programme service licence to ensure that 10% of the total

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11 Article 18 AVMS Directive - Both articles 17 and 18 were carried over from the previous Television Without Frontiers (TVWF) Directive 1989, which the AVMS Directive replaced.

12 Section 309 of the Communications Act 2003
amount of time allocated to the broadcasting of qualifying programmes is allocated to the broadcasting of a range and diversity of independent productions. This quota is separate from the European quota referred to above. Local television services will be licensed as a type of digital television programme service.

26. This domestic legislation does not provide for exceptions to be made from the quota in respect of local TV services. Therefore, unless the quota in the domestic legislation is specifically removed in relation to local TV, it will apply to the new category of local digital television programme service licences.

Definition of “Independent Producer”

27. In order to qualify as an “independent producer”, and thereby be capable of producing content which will count towards the 10% quotas detailed above, a production company must be a company (or other business entity) which is independent of broadcasters. The existing domestic legislation secures this independence by the way it defines the term “independent producer” at article 3(4) of the 1991 Order. It is stated there that an independent producer is (among other things) an organisation which does not hold more than a 25% stake in a broadcaster. This means that as soon as a production company owns more than that 25% stake, it can no longer meet the definition of “independent producer” – which in turn means that the content it produces can no longer count towards the 10% quota.

28. The 1991 order therefore prevents an independent producer from owning more than 25% of any broadcaster. An independent producer can only become a broadcaster (i.e. hold a greater controlling share) if it is prepared to forfeit its ‘independent’ status.

29. However the 1991 Order includes one limited exception to this definition, which permits independent producers to hold a greater ownership stake in a broadcaster without losing their status if the TV service is to be received exclusively outside the European Economic Area (EEA). This exception is not available to independent producers where the service is to be received anywhere within the EEA, including the UK.

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13 See footnote 8.
14 As defined by article 2 of the Broadcasting (Independent Productions) Order 1991.
Proposals

Government’s objectives

30. The Government wants to ensure the long-term success of local TV. The current regulation in relation to the 10% independent production quota and the inability for independent producers to bid in their own right for entire ownership of local TV licences whilst retaining their independent status could be detrimental to this aim.

31. The Government is seeking to keep the regulatory burdens on local TV to an absolute minimum where possible, in order to provide the best conditions for the long-term success of local TV. The lower the burdens, the more likely local TV is to succeed. In this way, we are seeking to address two issues in relation to independent production and independent producers in order to enable local TV:

(a) **To reduce burdens.** The independent production quota system which is currently imposed on broadcasters has been identified as a potentially significant burden on local TV licence holders, which it would be disproportionate to expect them to meet. It is therefore proposed that there should be no independent production quota imposed on holders of local TV licences.

(b) **To maximise the number of bidders.** The Government wants to maximise the opportunities for as many interested parties as possible to bid for a local TV licence. As previously noted, independent producers are currently unable to hold more than a 25% stake in a broadcaster without losing their “independent” status, and Government considers that this may discourage independent producers from bidding for a local TV licence. It is proposed that this position could be remedied by removing the current 25% ownership ceiling in relation to local TV licences owned by independent producers. A change to this rule would be subject to the requirement that television broadcasting does not become the main activity of the independent producer, by reference to revenue.

32. It is hoped that removing the above burdens will encourage the largest number and widest range of potential bidders for local TV services. It is envisaged that this will help deliver a more competitive process and potentially result in better services for audiences.

33. There is logic in dealing with the two issues together. The current independent production quota system functions by defining the concept of an independent producer by reference to (among other considerations) the size of the stake it can hold in any broadcaster. If this quota obligation is dis-applied in relation to local TV broadcasters, then there is an argument to also remove the ownership ceiling which prevents independent producers from owning a local TV service without losing their independent status. It seems right that there should be a balance between, on the one hand, saying that independent producers in the UK will not be able to take advantage of the potential
revenues which a quota on local TV broadcasters would provide and, on the other, saying that independent producers may have a larger – or indeed, a total – share in a local television broadcaster without losing their independent status. It would be disproportionate to dis-apply the quota yet continue to maintain a barrier preventing independent producers from holding a local TV broadcast service licence.

Proposal: Remove the 10% independent production content quota

34. Under the existing legislation and notification, newly licensed local TV broadcasters would be required to source at least 10% of their content from independent producers and independent producers could only hold up to a 25% stake in any licensed local TV broadcaster in order for its programmes to count towards a commissioning broadcaster’s independent production quota. The independent sector therefore might benefit from commissioning revenue from local TV, but the value of this revenue stream remains unclear in an untested market.

35. Local TV services may well be relatively small scale operations with very small programme budgets. This may make it difficult for a local TV broadcaster to find independent producers to deliver suitable programmes against the quota obligations without distorting its programming strategy and commercial decisions (which might result in higher costs or reduced programme output when it may be more cost effective for them to produce their content in-house). We would welcome the views of potential bidders for local TV licences on this point.

36. Alternatively if production fees payable to independent producers by local TV licensees are very small, independent producers may not choose to bid for local TV programme commissions. This could result in local TV licensees failing to fulfil their quota obligations leaving them open to potential sanction from the regulator Ofcom. Local TV licensees would also face the additional administrative burden of putting mechanisms in place to ensure the tracking of and compliance with the quota obligations.

37. Further, this proposal is consistent with the AVMS Directive which suggests that local TV broadcasts need not be required to meet the independent production quota obligations (removal of the quota restores the previous UK position whereby there was no quota obligation in relation to local analogue services).

38. Therefore, the Government proposes, for broadcasters of the new local TV services only, to remove the obligation to source 10% of broadcasting content from independent producers. This will be achieved by disapplying section 309 of the Communications Act 2003 so far as it applies to broadcasters of local television services and clarifying the notification made to Ofcom by the Secretary of State under section 335 of that Act.

Possible risks

39. Some niche national TV channels with small audiences may consider that local TV with potentially sizable audiences (e.g. London) would have an unfair regulatory advantage

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16 The Shott review (http://www.culture.gov.uk/images/publications/Local-TV-Report-Dec10_FullReport.pdf) and a later Enders Analysis report (http://www.endersanalysis.com/content/publication/local-tv-watch-space) suggested that local TV services could operate at a reasonable cost of between £500k and £1.2m per annum.
over them by not having to fulfil a quota obligation. This could be in the case of local TV perhaps even having a larger audience than some national channels. Whilst we understand the concern, we consider local TV to be in a unique position. Firstly, the AVMS Directive only permits the 10% quota obligation to be disapplied in respect of local broadcasts not forming part of a national network. This is a new market and has historically faced a number of barriers which have prevented it from succeeding. Removal of as many of these barriers as possible is important to ensure its long-term success and increase media plurality. This is particularly important in the first few years as local TV gains a foothold in the market and builds its brand.

40. Whilst this proposal does not carry any direct costs, there might be an opportunity cost for independent producers who would not benefit from an otherwise guaranteed new revenue stream from local TV services seeking to commission at least 10% of their output from independent producers. It is unclear what the value of a local TV quota would be to the independent sector, but it is likely to be small, as the commercial value of programming broadcast to a relatively small local audience will be far less than content made available to a national audience. We would welcome respondents’ comments on this point.

41. Furthermore, although the proposal does not guarantee income for the sector, it does not prevent independent producers from seeking these commissions if they wish to. It is also expected that in many instances (particularly in larger localities) local TV providers would be likely to look to source some content from independent producers anyway.

Proposal: Remove the ownership ceiling

42. The second aspect of this consultation concerns the prospects of independent producers bidding to run local TV services. This proposal is to remove the ownership ceiling by amending the definition of an ‘independent producer‘ to allow them to own a greater share in a local TV broadcaster without forfeiting their independent status.

43. Under current legislation, independent producers would not be able to participate fully in the opportunities offered by local TV compared to other industry players (e.g. broadcasters with their own in-house production capabilities). By doing nothing, there is a risk that there might be fewer bidders for local TV – and by consequence, less diversity in the range of applicants – and so some genuinely innovative approaches might not come forward.

44. Under existing legislation, independent producers are unable to own more than a 25% share of a broadcaster without forfeiting their “independent” status (by virtue of the definition that enables independent producers to benefit from the national statutory quota). Independent producers wishing to be involved in operating a local TV station would therefore currently have two options:

a) limit involvement to owning a minority share (25% or less) in a partnership with at least one other partner,

b) bid alone for a local TV content licence, and be prepared to give up ‘independent’ status if the bid was successful (i.e. effectively become a broadcaster, rather than an independent producer).
45. There are significant disincentives attached to both of these options. The process of setting up and managing a successful joint venture (in which the independent producer would be a minority stakeholder) or multi-partner consortium is obviously complex and is likely to require significantly more time and management effort than simply being able to bid on a stand-alone basis.

46. Similarly, sacrificing independent status for outright ownership of a local TV licence could affect an independent producer's ability to secure programme commissions from other broadcasters. Given the importance of this revenue stream, this is likely to deter independent producers from participating fully in the opportunities offered by local TV, compared to other industry players. This may reduce the possible number and diversity of bidders for a local TV licence.

47. The Government is considering removing this ceiling only in the case of local TV. Thus, if the ceiling was removed (or, put another way, if the ceiling was increased so that 100% ownership was permitted), then an independent producer could bid on its own for a licence and if successful in its bid, still retain its independent status.

48. However, it is important that any alteration to the permitted ownership ceiling does not lead to a blurring of the distinction between what constitutes a “broadcaster” and what constitutes a “producer”. If we do not retain this distinction with sufficient clarity, we risk losing our ability to comfortably comply with the European obligation to ensure that national broadcasters source 10% of their content from “producers who are independent of broadcasters”. In order to ensure that independent producers are still demonstrably “producers who are independent of broadcasters” – even where they are permitted to own a larger or a total stake in a local broadcasting company – we consider it necessary to include, as a condition which must be met in order for the ceiling to be increased, a requirement that local TV broadcasting activity must not be the main activity of an independent producer who holds a local TV licence; i.e. the local broadcasting activity should remain less in total revenue terms than the total revenue from the independent producer activity. This is consistent with the concept of “independence” for the purposes of the AVMS Directive.

49. Allowing independent producers to bid for local TV licences in their own right (as well as in partnership with others) may increase the competition for licences at the award stage. Indeed, some independent production companies may be well placed to provide local TV due to their particular connections to a local area. As experienced programme makers, independent producers would be able to offer proven TV production skills which could in turn benefit viewers.

50. Further, as independent producers retain rights for programmes they make, they may be able to provide a greater volume and range of programmes than some other potential licensees because producers may have larger libraries of content to draw from. In the eventuality that an independent producer owned a number of licences, it might be well placed to share such programming and resources between the different local services.

51. Changing the ownership ceiling does not stop independent producers from choosing to be part of a partnership or consortium, if they decide that is preferable or offers them an option to share more of the risk.
Possible risks

52. There may be some concern that removing the 25% ownership ceiling for independent producers could lead to a small number of powerful independent production companies becoming proprietors of local TV licences. This could have the potential to limit the variety of voices and content broadcast. However, the Government does not consider this a significant concern. This is of course a possibility for any one bidder (whether they are an independent producer or not) but an independent producer could not have local television broadcasting as its main activity (assessed by reference to revenue) under the new rules under consideration.

53. Independent producers may consider that the proposed changes would take them ‘out of their comfort zone’ and they may be content with this regulation not being amended. Government understands that this may indeed be the case for some bidders. However, previous contact with independent producers has suggested that a change to the ceiling would be of interest to a number of potential bidders so long as opportunities were created without detriment to the overall national quota system.

Conclusion

54. Subject to this consultation, the Government is minded to introduce both proposals as set out above to:
   - remove the 10% independent production content quota from applying to local TV services;
   - remove the ownership ceiling for independent producers to have full ownership of local TV services without losing their independent status (providing local TV broadcasting does not become their main activity).

55. The Government recognises there may be alternative views around removing the ceiling completely. Such an option might be to increase the shareholding an independent producer could hold in a local TV service from 25% to a number below 100%. For example, the ceiling could be increased to 49%. This would reduce the number of parties required in partnership or consortium to bid for local TV, but ensure the independent producer remained as a minority partner. This might help to increase interest from independent producers in bidding for local TV licences. The Government will consider the appeal of this option in the light of consultation responses, but it is not immediately obvious whether such a limited change would be sufficiently attractive to encourage more independent producers to participate in local TV given that it would still require the more complex arrangement of a joint venture or consortium bid.

56. Full removal of these burdens should allow for the long-term success of local TV whilst allowing independent production companies a chance to participate in the local TV market. We welcome comments, particularly to the consultation questions set out in the next section.
Consultation questions

Removal of the 10% quota

1. Would retaining a 10% independent production quota for local TV broadcasters create an unnecessary burden on local TV service providers and limit their programming decisions?

2. Is the qualitative assessment of the benefits and costs of removing the independent production quota for local TV listed in the impact assessment accurate? What additional data are respondents aware of that may be available to further quantify the benefits and costs of this part of the proposals?

3. The European AVMS Directive provides a specific exemption from the 10% quota for local TV, in that there is no obligation on Member States to ensure that the quota is met in relation to “television broadcasts which are intended for local audiences and do not form part of a national network” (Article 18). Is there any valid reason not to reflect this exemption in the context of the UK’s new local TV Framework?

Changing the ownership ceiling

4. Would allowing independent producers to become local TV service providers without losing their qualifying independent status encourage independent producers to bid for local TV licences? Are there any negative consequences as a result of this?

5. Is there a strong argument to increase the stake that an independent producer can own in a local TV broadcaster from 25% to less than 100% (e.g. to 49%), rather than to remove the ceiling completely?

6. Do respondents consider that there is a reason not to amend the definition of “independent producer” to enable such companies to bid to own local TV licences outright or to increase the stake they can hold in a local TV broadcaster?

7. Is the qualitative assessment of the benefits and costs of removing the independent production quota for Local TV listed in the impact assessment accurate? What additional data are respondents aware of that may be available to further quantify the benefits and costs of this part of the proposals?