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Rt. Hon. Jeremy Hunt M.P.,
Secretary of State for Culture, Olympics, Media and Sport,
Department for Culture, Media and Sport,
2-4 Cockspur Street,
London,
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24th September 2010

Dear Secretary of State,

Local Television in the UK

I am writing in relation to your request that I advise you on this matter.

My first act, upon being appointed by you, was to form a Steering Group to assist in the investigations. I have been exceptionally fortunate that Baroness Kingsmill, Claire Enders, Richard Eyre and Brian Linden all agreed to be members of the Group. They have all given more generously of their time than I could reasonably have expected; more importantly, their individual and collective wisdom has been invaluable. I cannot adequately express how grateful I am to each of them.

The fundamental question we have sought to address - within the context of your stipulation that local TV should be delivered principally (although not solely) by DTT - is: "What are the conditions necessary for local television in the UK to be commercially viable on a sustainable basis?" In addressing this, we have felt it important - in fact, essential - to have regard to the possible implications for the existing, wider local and regional media sector.

During the course of our enquiries to date, members of the Steering Group have held 16 separate meetings with a total of 81 individuals, all of whom have made valuable contributions to our understanding. We have more to do: for example, we believe it is vital to take account of the views and particular requirements of the Nations and the Regions, a process on which we have embarked but which we have not yet completed; and we need to investigate further the important matter of technical delivery options (an area in which Ed Richards and his colleagues at Ofcom are being extremely helpful to us).

Despite this need for further work, I feel that in many respects a consistent picture is beginning to emerge and that, accordingly, now is an appropriate moment to submit this Interim Report to you. Given my comments above, I should stress that the contents of this Interim Report do not represent firm conclusions; rather, they summarise our findings to date and our emerging thoughts.

In essence, our key early views are that:

- local television in sparsely populated areas is unlikely to be commercially viable on DTT, because of the twin pressures of significant transmission costs and weak advertiser demand for dispersed audiences;

- logically, local TV should stand a better chance of success in urban areas. However, even in densely populated urban areas, the economics of a TV business funded mainly by advertising will still be challenging, given the steady structural decline in local and regional advertising expenditure, caused partly by the continuing rise of the internet and partly by the fact that High Streets are increasingly populated by national chains. It is significant that the local radio sector is endeavouring to meet this change by trying to become more national, as witness the progressive rebranding of Global Radio stations to adopt the 'Heart' and 'Capital' brands;

- additional revenue sources will therefore need to be explored exhaustively: in particular, we believe that the possibility of locally generated news content being sold to other broadcasters should be closely examined; and we believe there may be scope for the local TV sector collectively to be sponsored (at least in the early years) by a large corporate wishing to be seen to support local/community life - a reasonable parallel for this is Barclays' sponsorship of the London bicycle scheme, worth £25m over five years. It may be that some relaxation of existing regulations will be required to maximise the range of revenue sources;

- new technology should allow for much reduced costs without necessarily resulting in a reduction in production quality. However, in general, great care must be taken to ensure that the understandable drive for ever lower costs does not result in impaired quality of content: we profoundly believe that inferior quality will be fatal. In this connection, we believe that the inevitable requirement for there to be a minimum quality threshold as part of any contract for supply of news content to another broadcaster (referred to above) would be a positively good thing, for all that the assessment of quality against the threshold will require an element of subjective judgement;

- audience demand for local content is likely to be driven primarily by news or news-type programming, implying that maintaining audiences at viable levels for lengthy periods will be challenging, to say the least; but that, symmetrically, on the supply side filling an entire schedule may well be equally challenging. It may therefore serve us well to think not of local TV <u>channels</u>, but of local TV <u>services</u>;

- local TV businesses should work together, either loosely or on some formal (i.e. shareholding) basis, to share costs wherever possible, to promote the generic concept of local TV and to improve the national advertising revenue proposition; they may also be able to create and share programming to augment the schedule. In particular, we believe that having a channel number for local TV which is common to all such services and which is in a prominent position on the EPG is highly desirable;

- even if local TV businesses co-operate as described above, it will still be a great challenge to build an audience from scratch and maintain it. We therefore believe there may need to be some form of support from existing networks and we are exploring two possibilities:

  (i) one of the existing national channels being a 'host' channel for local TV, with audiences being directed to their local TV service (should one exist in their area) at certain times of the day and then directed back to the host channel. Red button technology could help in this regard, giving the viewer an 'opt in/opt out' opportunity but also safeguarding the host channel. Having such a 'host' channel would, of course, deal with the requirement for a prominent position on the EPG; and

  (ii) as an alternative, national PSB channels having a 'pop-up' prompt at certain times of the day, advising viewers that their local TV service (again, if one exists in their area) can be accessed by pressing the red button; and

- DTT is undoubtedly a good way to reach large audiences, but the transmission network architecture is some 50 years old, and will require engineering solutions to produce even a reasonable patchwork of local TV coverage. We therefore regard it (at least for local TV) as an interim distribution technology which will eventually give way to distribution to television sets over IPTV, a technology that is some years from reaching worthwhile market penetration but which should offer far more scope for local services at much lower cost. It may be, therefore, that the best way forward in the near term will be to facilitate the creation of a select number of local TV services, based on major conurbations and using DTT, in order to establish and refine the local TV model before it naturally migrates to IPTV, at which point a larger number of services, potentially covering the whole country, becomes a real possibility.

This is but a synopsis of our thoughts to date. As I have said, we have more work to do and I hope to be able to submit a final report and recommendation by late November or early December.

In the meantime, we have started discussions with senior management of the BBC about ways in which the BBC might be able to offer support and help. These are showing early promise.

Finally, I should return to the point about the possible implications for existing local and regional media businesses. We are acutely conscious of the risk of unintended consequences - in other words, the possibility that by enabling the creation of local TV services, existing media are inadvertently weakened. As it happens, we believe not only that the prospects for local TV services would be improved by the involvement of existing operators (because of their established news gathering capabilities, their market knowledge and audience relationships and also because of the opportunities for cross-promotion), but also that such an involvement of operators could be good for them too. This is in part because of the structural changes that are taking place in their businesses and, in all likelihood, will continue to take place come what may. It is highly likely that, in due course, IPTV will be the best delivery means for local TV, enabling more local material to be accessed by the viewer; but it should also present an opportunity, for example, to newspaper publishers at least to maintain, if not recover, classified advertising revenues through the facility of IPTV to combine video, text and web links. We believe that (with relaxation of cross-media ownership rules where necessary) existing local and regional media businesses should be encouraged to become shareholders in local TV services (although we believe it would be healthy if they were not 100% owners, so that room could be left in the ownership structure for local enterprises). This holds out the prospect of cross-media enterprises with multi-layered, multi-platform propositions.

It has been difficult to see a clear path to commercial viability for local TV and, as I have said, we have more work to do before we can say definitively that local TV in the UK either can, or cannot, be commercially viable. However, on the basis of our work to date and assuming that all of the points outlined in this Interim Report were acted upon, we can at least see the possibility of a commercially viable local TV sector.

Yours sincerely,

Nicholas Shott