



House of Commons  
Culture, Media and Sport  
Committee

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**Future for local and  
regional media**

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**Fourth Report of Session 2009–10**

*Volume I*

*Report, together with formal minutes*

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## The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

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(Chairman)  
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Mr Adrian Sanders MP (*Liberal Democrat, Torbay*)  
Mr Tom Watson MP (*Labour, West Bromwich East*)

The following were also members of the Committee during the inquiry:

Mr Nigel Evans MP (*Conservative, Ribble Valley*)  
Helen Southworth MP (*Labour, Warrington South*)

### Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/cmscom](http://www.parliament.uk/cmscom).

### Committee staff

The current staff of the Committee are Tracey Garratty (Clerk), Elizabeth Bradshaw (Inquiry Manager), Jackie Recardo (Senior Committee Assistant), Ronnie Jefferson (Committee Assistant) and Laura Humble (Media Officer).

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## Summary

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Local media performs numerous functions in society. It scrutinises and holds to account local authorities and institutions, it informs people of news and events in their communities, and it forms part of the local identity of an area.

We were aware of reports from within local media that there were significant challenges being faced by the industry, brought about by structural changes and the impact of a global recession. Therefore we decided to launch an inquiry to examine the local media landscape in the UK at this time. In this Report we discuss the importance and relevance of local media in the UK at the moment, as well as the challenges it is currently facing.

Our inquiry examined local newspapers, radio, television news and internet based media. We look at what constitutes 'local' and 'regional', and what level of 'localness' is necessary and appropriate for different forms of media. We also discuss the importance of plurality in local media – that is, the number of different media 'voices' in an area or on a media platform (the particular media format).

We comment on the changing local media landscape and the impact of the internet on more traditional forms of media. While we highlight areas where the Government or other public bodies can implement changes that could help the local media industry, we conclude that many of the solutions lie with the media groups themselves.

### *Regional and local newspapers*

We note the impact that structural and cyclical factors have had on local newspapers. The economic downturn is beginning to show signs of recovery, but the impact of the growth and popularity of the internet on local newspaper purchasing and advertising revenues does not look set to reverse. We conclude that in order to maintain the independence of local media it is not appropriate for the state to subsidise it. It is therefore vital for local newspaper publishers to innovate to survive, for instance by continuing to develop websites and utilise internet technologies.

We acknowledge the concerns of local newspaper publishers about the current merger regime. Publishers have told us that the current system prevents consolidation, which they argue is necessary for their survival. We conclude that the current regime does need to be re-examined by the Government.

We note with concern the growing number of local authority publications that are competing with commercial local newspapers. We also find that some are misleading in nature and do not make it clear that they are council publications. We also comment on evidence of political bias in some local authority news sheets. We therefore recommend that the Department for Communities and Local Government should amend its guidance for local authorities producing publications making it mandatory that such publications should clearly state that they are published by a local authority on their front page. We also recommend that the Office of Fair Trading should conduct a review into the impact of local authority publications on local commercial newspapers.

Finally, we welcome the Press Association's proposals for public service reporting, as we believe it could alleviate some of the pressure in local newspapers, and could be a solution to the gap that has emerged as local newspapers are increasingly too under-resourced to report on public institutions and local democracy. We take note of the Press Association's concerns about the exclusivity of the 'broadcast pool' (video content of news events that are only allowed to be covered by a single camera, and is then shared between the BBC, ITN and Sky) and conclude that it is no longer appropriate to distinguish between broadcast and non-broadcast media when newspapers are increasingly using video on their websites. We therefore recommend that the broadcast pool arrangements should be clarified, and if the broadcast pool members are not prepared to share the content with the Press Association at a reasonable cost, Press Association cameras should also be admitted to single-camera events.

### *Regional news on television*

In this chapter we discuss the popularity of regional news on television and the economic difficulties it is facing. We examine regional news on Channel 3 and Government proposals for independently funded news consortia (IFNCs), along with proposals made by the BBC to make some of their resources available to either ITV or the replacement IFNCs. We also discuss the dispute between ITV and the Scottish television company, STV, regarding the Channel 3 schedule.

We are concerned about ITV's reports that they may not be able to continue to provide regional news on Channel 3, and believe the situation is in danger of reaching a crisis point that could jeopardise the plurality of regional television news. If it is not financially viable for existing Channel 3 licensees to continue to provide regional television news then we recommend that other, non-regional, public service broadcasting obligations should be suspended, using powers contained in the Digital Economy Bill, to alleviate the financial burden on the licensees and allow regional news to continue.

We support the IFNC pilots being established in Wales, Scotland and the Tyne Tees and Borders regions.

We conclude that the plurality of regional news provision is vital in a democracy. Therefore we restate our support for the principle of public funding, and note the Government's existing suggestion that this could be met from that part of the income of the licence fee that is currently allocated to the digital switchover help scheme.

### *Local Radio*

Local news, weather and travel are the most listened to content on local radio. As well as these services local radio offers content such as chat shows, phone-ins and discussion programmes which offer listeners an interactive local service that is very popular. We discuss the importance of local radio and the impact it has on the identity of local communities. We comment on the large increase in the number of local and community radio stations in the past 20 years and discuss what level of localness is sustainable for local radio.

We support Ofcom's proposals for deregulation of cross-media ownership, and we agree with local radio groups that the localness of radio should be determined by its output rather than location.

We also welcome Ofcom's encouragement of community radio and we believe this will become an increasingly important part of the local media landscape.

### *Local media online*

We note the concerns local newspaper publishers have about news aggregation websites, such as Google News, which provide the consumer with a list of news headlines and links from numerous news sources. We do not think it is acceptable that the local newspaper industry is prevented from taking any collective action on this by competition laws, and therefore recommend that the Office of Fair Trading should re-examine this issue.

We conclude that Google has achieved a dominant position through successful innovation and that some of the criticisms of Google from local newspaper publishers lack focus. We note that local newspaper groups can opt out of both Google web search and Google News if they wish.

However, we welcome recent changes to Google News, designed to support local newspaper websites, and urge Google to be continually aware of the impact which their products can have on local newspapers and remain sensitive to the need for plurality in news provision.

We are encouraged by developments that could help local news publishers become multi-platform news providers. We believe IFNCs could offer a shared skill and resource base to help local newspapers make the transition to becoming online publishers as well as print publishers. We also note that some publishers are experimenting with different business models for the provision of online content.

Finally, we consider whether it is local journalism, rather than local newspapers, that needs saving. We conclude that local printed newspapers are still relevant, not least because of the number of people who do not have access to the internet. However, newspapers must innovate and adapt to the digital world if they are to survive.



# 1 Introduction

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## Our inquiry

1. On 24 March 2009 we decided to launch a new inquiry into the future for local and regional media. We were very much aware of the challenges facing local and regional newspapers, including the impact of the recession and structural changes within the industry, which have resulted in a significant downturn in advertising revenues, a growing number of job cuts and newspaper title closures. These pressures have also had a serious impact on local commercial radio stations and regional television. Traditional media platforms are also having to face the reality of changing consumer behaviour with people increasingly using the internet as their source of information.

2. We agreed terms of reference which covered the issues faced by local and regional newspaper, radio, television, and new media providers, and invited evidence on the following issues:

- The impact on local media of recent and future developments in digital convergence, media technology and changing consumer behaviour;
- The impact of newspaper closures on independent local journalism and access to local information;
- How to fund quality local journalism;
- The appropriateness and effectiveness of print and electronic publishing initiatives undertaken directly by public sector bodies at the local level;
- The role and effects of search engines and online content aggregators on local media;
- The future of local radio and television news;
- The desirability of changes to the regulatory framework for print and electronic local media, including cross-media ownership and merger regulations;
- The opportunities and implications of BBC partnerships with local media;
- The extent of plurality required in local media markets;
- Incentives for investment in local content;
- Opportunities for 'hyper-local' media services.

3. We held seven oral evidence sessions and received a total of 63 written submissions. In July 2009 we went to Yorkshire and visited the Press Association headquarters, the Yorkshire Post, Real Radio Yorkshire and ITV Yorkshire as well as holding a public meeting in York to discuss local and regional media with media representatives and members of the public.

4. During our inquiry, issues related to local and regional media were also considered by other public bodies. In June 2009 the Government published the *Digital Britain* final report,<sup>1</sup> which set out plans for the formation of independently financed news consortia (IFNCs) which would have a significant impact on the future of regional and local news. Ofcom<sup>2</sup> and the Office of Fair Trading<sup>3</sup> also examined this area. We have taken note of these reports and their findings during the course of our inquiry.

## Local and regional media in the UK

5. Almost all the submissions which we received in relation to our inquiry stressed the importance of local and regional media. For instance, the Press Association stated in its submission that local and regional media provided a “trusted source of public service information and accountability for local communities”.<sup>4</sup> The Department for Culture, Media and Sport (DCMS) outlined the Government’s belief in the importance of local and regional media:

Government recognises the importance to our democracy of local news, as a source of independent, local information produced to high journalistic standards, and news plurality. We believe that wide availability of news at all levels, national, regional and local, is at the core of public service content. Research carried out as part of Ofcom’s public service broadcasting (PSB) review showed very clearly that people trust and value the provision and choice in news services in this country, and they trust and value local and regional news in particular.<sup>5</sup>

6. Channel 4 pointed to the fact that local media organisations are a “valuable training ground”<sup>6</sup> for new talent looking to break into television production, journalism and radio. This is part of what has been termed the ‘news pyramid’ which we discuss in more detail in paragraph 14.

7. According to the media regulator, Ofcom, the vast majority of adults in the UK (90%) are consumers of some sort of local media.<sup>7</sup> Over 70% watch regional news on television, and three-quarters read a local newspaper at least weekly, while nearly half listen to local and commercial radio, one in five access a local news website and three quarters of adults in the UK consume local news on a regular basis.<sup>8</sup> The UK’s local and regional media sector includes approximately 1,300 regional and local newspaper titles; 350 local and regional BBC and commercial radio services; regional television news bulletins delivered by both publicly-funded and commercial providers; an embryonic local television sector; and a range of commercial and non-commercial community-based media. A summary of regional and local media in the UK is outlined in the table below:

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1 Department for Culture, Media and Sport and Department for Business, Innovation and Skills, *Digital Britain, final report*, Cm 7650, June 2009

2 Ofcom, *Local and Regional Media in the UK*, September 2009

3 Office of Fair Trading, *Review of the local and regional media merger regime*, June 2009

4 Ev 240

5 Ev 126

6 Ev 164

7 Ev 170

8 Ev 170–171

Type of media	Number of services/publications	Examples of operators/comment
Local and regional newspapers	c.1300	Trinity Mirror, GMG, Johnston Press, Newsquest, Archant
Local/Regional commercial radio services	304	Bauer, Global, UTV, GMG Radio, LRC
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 Plc, STV, UTV, Channel TV
BBC Regional TV news	12 main programmes plus 3 English opts	BBC also produces Newyddion for S4C
Local TV	4 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, 2* Scottish national service, 2* NI service	Includes non-English language stations in Wales and Scotland
Community radio	135 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 operator of network of 60 local websites, covering 55 areas (and 5 Welsh language)

Source: Ofcom

8. In its evidence to our inquiry, Ofcom noted that the term ‘local’ could be interpreted by the public in many different ways, and that local media should not be regarded as one business model facing one set of challenges.<sup>9</sup> Whilst consumer research suggested that individuals found it easy to distinguish between the concepts of ‘national’ and ‘regional’, there are differences in how people classify different levels of ‘localness’. Definitions of localness are inherently flexible, and what could be construed as ‘regional’ in some contexts could be regarded as ‘local’ in another. The areas covered by certain media vary enormously in the UK in terms of geographical and population coverage. Commercial radio stations such as Capital Radio can serve millions of people and still be regarded as ‘regional’, as can newspapers such as *The Scotsman* and the *Yorkshire Post*. In the devolved nations the terms ‘regional’ and ‘national’ are even more complex. Regional news on television in Wales, Scotland and Northern Ireland is, in reality, national news rather than news about smaller regions within that nation, as is the case in England. We took account

of this further layer of complexity when trying to classify what constitutes regional and local during our inquiry.

9. We also heard evidence about new ‘ultra-local’ or ‘hyper-local’ initiatives, such as websites and community radio, based in communities which are another level of localness. It is difficult to provide a precise definition of what constitutes ‘ultra’ or ‘hyper’ local but they can be regarded as serving a smaller, and more targeted geographic area than is traditionally served by a local newspaper or commercial radio station. These services are often characterised by the large amount of user-generated content they offer and the emphasis they place on the dialogue between the producers and consumers of the content. We examine hyper-local initiatives in more detail in paragraph 253 to paragraph 263 of this Report.

10. As well as the importance of local and regional media to consumers, we also considered how much local and regional media is, and should be, available to the public. Most of those who gave evidence to our inquiry stressed the importance of safeguarding plurality, ie: the number of different media ‘voices’ in an area or on a media platform rather than the number of services. For example, a community may have several local newspapers, but if they are all owned by the same company, that would not be considered as plurality. A choice of media voices, services and platforms is needed to provide balance and access to local and regional information for all consumers, including the “digital have-nots” – those who do not have internet access. Access to digital media is subject to many factors, including age, ability, income and location. Recent Ofcom research put the number of people who do not use the internet at all at 22% of UK adults. In the age group 65–74 that figure was 54% and in the age group 75+ it was 80%.<sup>10</sup> Therefore we have been careful to remember when examining local media issues that there is still a segment of society that is not digitally enabled, for whatever reason.

11. Given the consensus of opinion on the importance of, and demand for, local and regional media it begs the question: why do local media organisations claim to be in crisis? A number of factors contributing to the pressures and challenges faced by local and regional media groups have been brought to our attention during our inquiry. The global economic recession has resulted in a decline in advertising revenues for all media groups, as well as a decline in the purchasing of media products. There has also been a migration of advertising revenues away from traditional media including television, regional and local press and commercial radio to online advertising. We examine these in detail, along with other pressures specific to each of the media platforms covered, in the following chapters of this Report.

## 2 Regional and local newspapers

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12. Regional and local newspapers perform an important role in the UK. They provide more coverage of local news, local events and local people than any other medium. The vast majority of local newspapers are politically independent, something which is partly driven by financial common sense since alienating large sections of a local community could be commercially unwise. However, this independence and objectivity is one of the most significant features of the local press, as local newspapers are the primary source of reporting of local politics and public bodies facilitating independent scrutiny and accountability.

13. In July 2009 we held an open public meeting in York as part of this inquiry. It was the first time we had held such an informal meeting with the public, and we would like to thank the over 100 people who attended and shared their views with us. We heard first-hand the importance to them of regional media, and one of the overriding themes of the meeting was the opinion that local newspapers, in hardcopy, were still relevant to communities.

14. Local newspapers, and more specifically the journalists who work on them, also underpin the national news industry forming the bottom layer of what has been described as the ‘news pyramid’ as John Fry, Chief Executive of Johnston Press, explained to us:

There is a bit of a news pyramid really, where locally we create the bottom layer of that pyramid. We have 11,000 journalists around the country and they create huge numbers of local stories. People further up the pyramid then take some of them and develop them. At BBC News what they do every day is they come into work. They buy the local newspaper. They look on our websites and they select from that. “There are 50 stories there. Let’s take these three.” They will develop those three stories during the day and that is what you will get on your evening news. If you do not have our journalists doing those 50 stories at the bottom, the whole pyramid does not work anymore.<sup>11</sup>

15. In addition, many journalists working on national newspapers and television broadcasters started their professional careers on local newspapers. This further demonstrates the importance of the role performed by local newspapers as a source of entry and training in the profession of journalism.

### The state of the local newspaper industry

16. As of January 2009, there were approximately 1,300 local and regional newspaper titles in the UK, published by 87 publishers.<sup>12</sup> Most of these local and regional newspapers (70%), up until recently, were published by the five largest local newspaper groups: Guardian Media Group (GMG), Trinity Mirror, Johnston Press, Newsquest Media (a subsidiary of US media company Gannett & Co.) and Northcliffe Media (a division of

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11 Q 46

12 Ev 174

Daily Mail and General Trust). In February 2010, Trinity Mirror bought out GMG's regional operations which included 32 newspapers.<sup>13</sup>

17. We heard from representatives of these local and regional newspaper groups throughout the course of our inquiry, as well as from the Newspaper Society, which represents the publishers behind virtually all of the 1,300 titles. We also heard evidence from Enders Analysis, a UK media consultancy, and the Press Association which describes itself as the “national news agency of the UK.”<sup>14</sup>

18. The evidence we heard from these publishers and representatives of the local newspapers in the UK painted a bleak picture of the industry. Claire Enders, Chief Executive of Enders Analysis, said that she expected up to half of the 1,300 titles to close within five years.<sup>15</sup> The recorded profits of GMG Regional Media fell by 85% in the last financial year (2008–09), while Trinity Mirror closed 27 newspapers in 2008 and another eight in 2009 (out of 150 local titles).<sup>16</sup> In March 2009, Johnston Press reported a loss of £429.3 million, compared to a profit of £124.7 million in the previous year,<sup>17</sup> although Johnston Press' interim report at the end of August 2009 did report a stabilising in advertising revenues in the middle of 2009.<sup>18</sup> The National Union of Journalists (NUJ) has documented the closure of 60 local newspapers and more than 1,500 job losses in local newspapers from May 2008 to May 2009,<sup>19</sup> and the Newspaper Society told us that the “industry currently faces an unprecedented combination of economic and structural challenges.”<sup>20</sup>

## Structural changes and declining advertising revenues

19. Ofcom has acknowledged that the local media sector is “facing significant economic pressure”<sup>21</sup> though it does not accept that that this necessarily means the fundamental model of local newspapers is broken, as the factors affecting the industry could be cyclical.<sup>22</sup> Ofcom states that recent newspaper closures need to be seen in the context of a significant expansion in the 1980s of the number of newspaper titles published, many of which were free weekly papers who took advantage of a boom in advertising revenues at that time, and that there is “no evidence of large scale closures among [local] dailies or paid weeklies.”<sup>23</sup>

20. This is at odds with the views of Enders Analysis and the local newspaper groups who argued that not only had the current economic recession resulted in a contraction of advertising revenues and purchasing power from consumers but that this coincided with

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13 “Guardian Media Group sells regional business to Trinity Mirror”, *Guardian Media*, 9 February 2010

14 Press Association website, [www.pressassociation.com](http://www.pressassociation.com)

15 Q 11

16 Ev 231

17 “Johnston bad news”, *Financial Times*, 12 March 2009, p 24

18 Johnston Press, *Interim report*, August 2009, [johnstonpress.co.uk](http://johnstonpress.co.uk)

19 Ev 151

20 Ev 243

21 Ev 168

22 Ev 168

23 Ev 175

an ongoing structural change in the correlation between advertising spend and Gross Domestic Product (GDP). Traditionally, advertising has increased in line with GDP.<sup>24</sup> However, as explained by Claire Enders, since 2001 advertising spend has been growing at a slower rate and diverging from GDP.<sup>25</sup>

21. As well as the economic downturn and wider trends in advertising revenues, local media groups argue that other, recent, structural changes have contributed to the challenging environment that local newspapers find themselves in. The changing way in which people search for jobs, property, cars and other products has undoubtedly resulted in advertisers prioritising the internet as a host for their campaigns. Government recruitment advertising has increasingly migrated away from local newspapers, as Claire Enders told us:

The main issue is with recruitment advertising and property advertising, but particularly recruitment advertising. The Government started to withdraw recruitment advertising from the local press in 2004 and that has been absolutely the most awful thing.<sup>26</sup>

22. The Scottish Daily Newspaper Society agreed:

The industry's problems in Scotland are exacerbated by the loss of local authority recruitment advertising to an electronic portal operated by the Convention of Scottish Local Authorities (CoSLA). Based on analysis of advertising expenditure by the Scottish public sector relating to 2005–06 the loss of local government recruitment advertising will cost the newspaper industry £13.5 million.<sup>27</sup>

23. Online advertising revenues in the UK increased from £0.2 billion to £2.8 billion from 2002 to 2008 compared with a drop from £2.8 billion to £2 billion for local and regional newspapers.<sup>28</sup> Trinity Mirror described the situation from its perspective:

[...] advertisers have been shifting ever-increasing proportions of advertising budgets online to match these changing consumption habits. [...] total regional newspaper advertising fell by -15% in 2008 and has been forecast to fall by -28% in 2009, reflecting the sharp decline in classified categories we and our competitors have been experiencing over the last year. This compares to just -1% decline in regional newspaper advertising revenues in 2007.<sup>29</sup>

24. John Fry, Chief Executive of Johnston Press, told us of the decline in advertising revenues for his businesses:

Advertising has dropped 40% in the last two years [...] that is over 80% of our revenue that has dropped by over 40%. You can work out the numbers. It is around a third of our revenue that has disappeared. To really understand the business, you

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24 Q 8

25 Q 8

26 Q 14

27 Ev 163

28 Ev 172

29 Ev 231

have to understand what is cyclical and what is structural change. The structural change really got going for us with the adoption of broadband in 2003. What we found is that we were losing about 4% of our advertising each year due to structural change.<sup>30</sup>

25. There are mixed views in the local media industry about whether classified advertising in local newspapers will recover. Carolyn McCall, Chief Executive of Guardian Media Group, told us she was not optimistic:

I do not believe the prospects for recovery particularly in classified advertising are strong. I think the structural change means that many people are now testing online media and using it quite effectively. I know that from one of our businesses in our portfolio which is *Auto Trader*. I do not expect to see a great deal of those three big markets [property, recruitment and cars] and they were the bedrock of a lot of regional newspapers.<sup>31</sup>

26. However, John Fry expressed the hope that although irreversible structural changes had impacted on classified advertising most of the decline in advertising revenues was cyclical and therefore could recover:

Cumulatively by last year we reckon that we lost about 18% of our advertising due to structural change. Then we hit massive economic problems so the 40% drop that we have seen in the last couple of years I believe is more cyclical than structural. That implies therefore that there will be a bounce in advertising when the economy recovers. There will of course be further structural change. We reckon we will lose around a quarter in total of our advertising versus where we would have been. From here onwards, we are likely to bottom out this year and, as the economy recovers whenever that may be, we will see a recovery in our advertising.<sup>32</sup>

27. In a report produced by Johnston Press at the end of August 2009, John Fry did voice some cautious optimism about recovery and said “the timing of the economic upturn remains uncertain but advertising revenues are demonstrating greater stability and we expect the cyclical improvement when it comes to more than compensate any ongoing structural change.”<sup>33</sup>

28. Tony Watson, Managing Director of the Press Association, also described the cyclical effect of the economic downturn on advertising:

The regional press has traditionally relied very heavily for a large income stream on the major pillars of classified: recruitment, motors and property. So that process has been going on in the lead-up to the recession and I think it is fair to say that the effects of those changes are likely to be permanent. What nobody really knows at this stage is to what extent the cyclical downturn is responsible for the reduction in advertising revenues that we have seen over the last 18 months or so, and I think what is clear is that when the newspapers do emerge from recession they will be

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30 Q 44

31 *Ibid.*

32 Q 44

33 Johnston Press, Interim report, August 2009, [johnstonpress.co.uk](http://johnstonpress.co.uk)

smaller businesses and they will be businesses that operate to much smaller margins than has hitherto been the case.<sup>34</sup>

29. Claire Enders told us that although economic forecasting could never be infallible, any further reductions of income of 20–30% (as was recorded in 2008) would jeopardise the survival of many local newspapers.<sup>35</sup>

30. As well as a shift towards the internet by consumers there has been a shift in consumer behaviour, shaped by changing retail structures, that has contributed to the deterioration in local newspaper sales. Supermarkets take much of the distribution of local newspapers, and supermarkets are often located out-of-town or a car journey away for many people, which has an impact on the access to local newspapers for potential readers. Trinity Mirror told us:

As more and more of the national retail spend is attracted to the large supermarkets, consumer buying habits have changed. As consumers consolidate their shopping into one or two visits to a supermarket a week, they are no longer visiting small local shops on a daily basis. The habit of picking up a newspaper as they pass a newsagent or shop in a local general store is being broken.<sup>36</sup>

31. Given some of the bleak reports from local newspapers of advertising revenues that have already dropped by up to 40% and the forecasts for further decline that we have heard,<sup>37</sup> it would be easy to assume that the future for printed local newspapers is bleak. As we have heard, however, many local newspaper publishers are rising to the challenges and growing an online presence which compliments their publications, and utilising their position as key providers of local news, information and advertising.<sup>38</sup>

32. Ofcom statistics show that in 2002 32% of people used local newspapers as their main source of local news. By 2008 this had fallen to 23% over the same period. The internet as a primary source of local news had risen from 1% to 4%, and 25% of those accessing local newspaper websites did so instead of reading the hardcopy.<sup>39</sup> The Newspaper Society described the internet presence of local newspapers as a reason for “cautious optimism”:

While regional press print advertising revenues were down 15.8%, their internet advertising revenues (although still tiny in revenue terms in comparison with print) grew by an estimated 19% in 2008. Online recruitment advertising is growing at an even faster rate for local newspaper websites (+17.1% year on year) than for the big specialist recruitment sites like Monster, Jobsite and Fish4 (many of which are owned by newspaper companies) (+5.6% year on year). Local newspaper websites have positioned themselves well to capture advertising migration and are quietly

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34 Q 70

35 Q 19

36 Ev 231

37 Ev 173

38 Ev 234

39 Ev 171

stealing share from the specialist recruitment sites [which] demonstrates effectiveness of local newspaper website advertising.<sup>40</sup>

33. As highlighted by the Newspaper Society, a number of the large advertising websites in the UK are actually owned by local newspaper publishing groups. For example: Jobsite and Findaproperty are owned by Northcliffe Media; Exchange & Mart is owned by Newsquest; and Fish4 is co-owned by Newsquest and Trinity Mirror.<sup>41</sup>

34. Local newspaper publishers DC Thomson (DCT) described to us their own attempts at innovation using internet technologies:

To meet these new demands, DCT have put into place a digital strategy consisting of website creation, development and integration with our print titles. We believe a complementary internet strategy is important for our future, although this strategy is costly to implement and the return from online publishing is way below that traditionally enjoyed by the print product.<sup>42</sup>

35. The development, maintenance and promotion of websites by local newspapers is costly, however some of that cost can be offset by recouping lost classified advertising from the print edition through the website. Trinity Mirror pointed out to us that the economies of scale which could be achieved through consolidation would enable them to develop local digital services,<sup>43</sup> which is something we examine later in this chapter.

36. Local newspapers' share of the online market could be helped by new BBC proposals. The BBC Executive's *Putting Quality First* report,<sup>44</sup> published in March 2010, outlined proposals to "refocus"<sup>45</sup> the BBC's online presence. This included a proposal to restrict local BBC websites in England to carrying just news, sport, weather, travel and local knowledge. The BBC report also proposed that by 2013:

- [...] there is at least one external link on every page of the website where editorially appropriate, making the best of what is available elsewhere online an integral part of the BBC's offer to audiences;
- Doubling the number of monthly 'click-throughs' to external sites from 10m a month to over 20m.<sup>46</sup>

**37. We welcome the BBC's proposals to increase the number of external links on their websites. We recommend that every local BBC website should link to the local newspaper websites for that area.**

38. The views of local media groups themselves about the structural and economic pressures they face have been well documented. However, there are some who believe that

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40 Ev 245

41 Ev 234

42 Ev 224

43 Ev 233

44 BBC Executive, *Putting Quality First: The BBC and Public Space*, March 2010

45 *Ibid.*, p36

46 *Ibid.*, p37

this crisis for local newspapers is partly of their own making. The NUJ have strong views on the reasons why the local newspaper industry is in such a dire position. It argues that local media groups failed to invest in new technologies when times were good in the 1980s and early 1990s when profit margins of 30–40% were commonplace.<sup>47</sup>

39. In January 2009 Nicolas Sarkozy, the President of France, announced a series of measures designed to help French national and local newspapers. President Sarkozy pledged €600m in aid to the French newspaper industry as well as a free subscription to a newspaper of their choice for all 18 year olds living in France.<sup>48</sup> The impact of these measures remains to be seen, but it is unlikely to be a model adopted in the UK, where state subsidy of the press has traditionally been regarded as a threat to its independence.

**40. The long term impact of the recent loss of advertising income streams on local newspapers remains to be seen. The economic downturn shows signs of recovery, and this should manifest itself in some recovery of advertising revenues for local newspapers. However the adverse impact that the growth and popularity of the internet has had on newspaper purchasing and advertising does not look set to reverse. There is a significant generational shift in reading habits, and the internet is fostering a younger generation of electronic news consumers on which newspapers need to capitalise.**

**41. Local newspapers have recently suffered from an unprecedented downturn in revenues. Some local newspaper publishers have profited from diversifying their online presence with advertising websites such as Jobsite and Fish4, however, the industry is still in a precarious position. The state subsidy of national and local newspapers, as has been seen recently in France, is not the solution. Newspapers should remain independent of state funding and control and attempt to profit from diversifying their online presence as best as they can.**

## Consolidation and the media merger regime

42. Like all UK businesses, media companies are subject to merger regulations. The UK merger regime is designed to preserve both plurality and competitive rivalry between firms, and hence protect consumers from any negative competitive effects of consolidation.

43. The general framework for the assessment of mergers (including media mergers) under UK law is set out in the Enterprise Act 2002,<sup>49</sup> which came into force in 2003. The Office of Fair Trading (OFT) carries out a relatively short ‘first phase’ examination of a proposed merger, at the end of which a decision is taken on whether a more detailed ‘second phase’ examination by the Competition Commission is warranted, or whether the merger should instead be cleared by the OFT (with or without remedies). The Competition Commission determines the outcome (clearance, prohibition or remedies) of merger cases referred to it by the OFT.

44. The merger control regime applicable to newspaper mergers was significantly scaled back in 2003 to make it less burdensome. For the most part, therefore, UK newspaper-on-

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47 Ev 150

48 “Sarkozy pledges €600m to newspapers”, *The Guardian*, 23 January 2009

49 Enterprise Act 2002

newspaper mergers are now subject to the same general merger regime as most other industries in the economy. Under the previous (Fair Trading Act 1973) regime, a transfer of a newspaper that met the criteria for the application of the regime was unlawful and void if it proceeded without the prior consent of the Secretary of State. With certain limited exceptions, the Secretary of State could not consent to qualifying newspaper transactions without a reference to the Competition Commission.

45. However, as Claire Enders pointed out to us, media firms are still subject to some additional, “heavier” burdens specific to the industry.<sup>50</sup> Cross-media ownership rules place certain restrictions on the ownership of different forms of local and regional media. The rules are complex, but are summarised below:

There is a national ‘20%’ rule:

- i. no one controlling more than 20% of the national newspaper market may hold any licence for Channel 3;
- ii. no one controlling more than 20% of the national newspaper market may hold more than a 20% stake in any Channel 3 service;
- iii. a company may not own more than a 20% share in a Channel 3 service if more than 20% of its stock is in turn owned by a national newspaper proprietor with more than 20% of the market.

There is also a regional ‘20%’ rule: no one owning a regional Channel 3 licence may own more than 20% of the local/regional newspaper market in the same region.

Rules on local radio ownership require that there are at least three/local/regional commercial media voices (in TV, radio and newspapers) in addition to the BBC in developed markets.<sup>51</sup>

46. The OFT’s review of the local and regional media merger regime was published in June 2009<sup>52</sup> as a result of a recommendation made by the Government in its *Digital Britain* report and examined ownership and competition in regional media, focussing particularly on local newspapers. The OFT’s report did not recommend any legislative changes and concluded that the current merger regime “is well placed to take into account developments such as competition from the internet because it is evidence-based and capable of reflecting market realities,”<sup>53</sup> and that no further OFT research was warranted in this area.

47. John Fry, Chief Executive of Johnston Press, disagreed. He told us that in applying the current merger rules the OFT look narrowly at just newspapers and regard everything else as outside the scope, “whereas we all know that we are competing with a wide range of media.”<sup>54</sup> Mr Fry went on to give the example of local newspapers competing with national newspapers and the likes of eBay and *Auto Trader*. Sly Bailey, Chief Executive of Trinity Mirror, set out what she hoped would be changed:

50 Ev 221

51 Department for Culture, Media and Sport, “What we do – broadcasting”, culture.gov.uk

52 Office of Fair Trading, *Review of the local and regional media merger regime*, June 2009

53 *Ibid.*

54 Q 50

We are not asking for all the cards to be chucked up in the air and for there to be no control over mergers. What we are asking for simply is that there is an understanding that reflects the media markets that we now operate in.<sup>55</sup>

48. Media groups such as Trinity Mirror and DC Thomson supported consolidation,<sup>56</sup> and Enders Analysis argue that consolidation has “greatly aided the survival of some of those marginal titles which 10 years ago would otherwise have already folded”<sup>57</sup> and furthermore “is key to its [local media’s] survival, and uppermost in the strategies of publishers for the near future.”<sup>58</sup>

49. The benefits of consolidation for local newspaper groups were summarised by Trinity Mirror as being:

- i. Synergies [combinations with greater effect than the sum of their parts] in functional areas such as senior management, HR, IT, Finance, Marketing and office costs would lower the fixed cost base of the business and improve profitability;
- ii. In areas where there is an overlap of titles, cost-sharing in all departments, from editorial and sales to printing, distribution and premises would improve profitability of both titles and increase the likelihood of both titles surviving
- iii. In areas where the population and/or advertiser base cannot sustain two titles indefinitely, a merger may result in the closure of one title but a strengthened and sustainable improvement in the profitability of the other, thereby enabling communities to continue to be served by the regional press;
- iv. Benefits of scale across the business, from newsprint procurement to improved access to capital markets;
- v. Combined cash-flow providing greater stability for the combined entity and improved ability to service debts and pension liabilities in the face of increasing pressures of a declining advertising market;
- vi. additional cash to invest in digital development.<sup>59</sup>

50. Trinity Mirror went on to argue that the merger of local newspapers would not have a negative impact on the competition for local advertising, as advertisers can, and do, now go online.<sup>60</sup> The use of targeted advertising by internet sites such as Google has also increased competition as previously it was only local newspapers and the *Yellow Pages* that could match local adverts to local audiences.

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55 Q 61

56 Ev 233, 226

57 Q 19

58 Ev 223

59 Ev 233

60 *Ibid.*

51. In response to the criticisms of the media merger regime made by local newspaper groups John Fingleton, Chief Executive of the OFT, told us:

I am not convinced that the mergers regime and the way it operates is a particular problem. It has not blocked any mergers, and we are very open to giving people advice, guidance and whatever else is needed, but we must protect consumers and businesses who in turn compete to supply consumers as advertisers, and if we ever had concerns, that is where we have raised them.<sup>61</sup>

52. Mr Fingleton said that the merger regime had allowed six newspaper mergers in recent years, four of which had been cleared by the OFT at Phase 1, one which had been remedied and subsequently allowed to go ahead, and one which had been referred to the Competition Commission and subsequently cleared. He also told us that in the past three years no local newspapers had taken up the OFT's offer of free confidential advice on mergers.<sup>62</sup>

53. With regards to the impact of mergers on competition for, Mr Fingleton said:

We would have to make sure, for example, that if local businesses could only advertise through a particular medium, but, for example, national retailers had much wider options available, the ability of national retailers to have online and to be able to switch between online and internet-based, as opposed to local print media, would not necessarily protect the local person who is trying to get to the market. So you could end up with quite big distortions of competition at the retail level, whereby you say, well, we do not care about the small local business whose only means to the market is through these publications. So we are very centred on the customer, who in this case is the advertiser, who acts as a proxy for the final consumer.<sup>63</sup>

54. Other objections to the consolidation of local newspaper groups were voiced by the NUJ who opposed any relaxation of the merger regime on the grounds that it could impact on press standards and result in job losses:

We do not believe newspaper media ownership regulations should be relaxed to allow greater concentration of local and regional newspaper ownership. Consolidation of newspaper groups has been a major factor in reducing resources for newsgathering. Further consolidation would accelerate the trend which saw Newsquest, for example, cut 2000 jobs in three years.<sup>64</sup>

55. In November 2009, after a public consultation, Ofcom published a report to the Secretary of State for Culture, Media and Sport reviewing the cross-media ownership rules. This report recommended some relaxation of the of the local ownership rules to "benefit citizens and consumers by helping to ensure that local content continues to be commercially provided."<sup>65</sup> Specifically Ofcom recommended:

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61 Q 369

62 Q 385

63 Q 385

64 Ev 155

65 Ofcom, *Report to the Secretary of State for Culture, Media and Sport on Media Ownership Rules*, 17 November 2009

Liberalising the local cross media ownership rules so that the only restriction is on owning all three of: local newspapers (with 50% plus local market share); a local radio station; and a regional Channel 3 licence. This liberalisation will increase the flexibility of local media to respond to market pressures. Consumers still rely on television, radio and press for news so we are not recommending complete removal of the rules.<sup>66</sup>

56. Although these recommendations would not significantly alter the media merger regime, they could allow the cross-media ownership of local newspapers and either regional television news or radio. The Department for Culture, Media and Sport has not yet responded to these recommendations but we believe, if adopted, they would be beneficial to local media groups.

**57. The evidence we have heard from local media groups about the need to modify the merger regime and cross-media ownership rules is persuasive. We welcome the recommendations made by Ofcom in their report to the Secretary of State on media cross-ownership rules, and urge the Government to implement them. However we believe more far-reaching reform is needed. In order for local newspapers to survive in a changing economic and technological world, they need to be regarded as competitors in a multi-media landscape. Despite the evidence given by the Office of Fair Trading, we believe that the current media merger regime does not fully reflect this. We recommend that the Government re-examine the arrangement by carrying out a consultation on a possible multi-media merger regime.**

## Local authority publications

58. During our inquiry we have heard much evidence of the increasing trend towards local authorities publishing and distributing their own free publications. The Local Government Association (LGA) actively encourages councils to operate their own newspapers or magazines as a means of communicating with the public, and in 2005 the LGA launched a 'Reputation Campaign', which sought to encourage local authorities to improve their communications with residents. One of the 'core actions' that formed part of this campaign was the publication of a council newspaper.<sup>67</sup>

59. The LGA conducted a survey of council publications in 2009 and nearly all respondent authorities (94.5%) produced a newsletter, magazine or newspaper. Of these, quarterly publications were most common, accounting for 32.4%, while 14.4% published editions monthly or more frequently. On average, it cost authorities £70,000 to produce the publication over the financial year 2008/09, employing the equivalent of one full-time person.<sup>68</sup>

60. All of the local newspaper groups who gave evidence to our inquiry commented on local authority newspapers, and the overwhelming consensus was critical. The principle arguments they made against council publications were:

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66 Ofcom, *Report to the Secretary of State for Culture, Media and Sport on Media Ownership Rules*, 17 November 2009

67 Local Government Association, *Reputation Campaign*, reputation.lga.gov.uk

68 "Council magazines not a threat to the local media", Local Government Association press release, 27 April 2009

- Insufficient distinction between local authority publications and independent newspapers;
- Diversion of advertising spend away from the traditional press;
- The inclusion of public notices in council publications rather than the traditional press;
- Content not sufficiently objective or independent (including allegations of “council propaganda”<sup>69</sup>).

61. Trinity Mirror reported that local authority publications had increasingly moved away from traditional four-page information sheets to publications that openly competed with commercial newspapers for advertising.<sup>70</sup> Tony Watson, the Managing Director of the Press Association, told us that: “local authorities have a perfect right and, indeed, an obligation to talk to their council tax payers, but I think there is a world of difference between that and seeking to set yourself up as a *bona fide* newspaper competing with the local titles”.<sup>71</sup>

62. However, there is another side to the argument. Hackney Borough Council pointed out that although there might be an element of competition for advertising between council papers and local commercial newspapers, often the production of council newspapers was contracted out. Hackney Council had awarded a four year £4 million print contract to Trinity Mirror for the production of *Hackney Today*.<sup>72</sup>

63. We held an evidence session with local councillors representing the LGA on 27 October 2009. They brought along some examples of the publications produced by their councils. Two of those which we saw were in a magazine format and clearly stated they were council publications, one did not: Hammersmith and Fulham Borough Council’s *H&F News* looks very much like a local newspaper. It is a tabloid in format and, in the 20 October 2009 edition which we saw, there was nothing on the front cover that indicated it was a local authority publication. *H&F News* follows the format of a local newspaper, with news, features and sport, as well as carrying a substantial amount of classified advertising, including extensive recruitment and property adverts. This is a very different format from other council publications. For example, Stevenage Borough Council’s *Chronicle* and Portsmouth City Council’s *Flagship* are quarterly and monthly publications respectively, both in magazine format, clearly state they are published by the local authority, carry no classified advertising and are solely for the purpose of providing public information on local authority services.

64. The edition of *H&F News* that we saw also contained an article entitled: “Businesses brace for huge rates rise,”<sup>73</sup> which contained extensive quotes from Conservative Councillor Mark Loveday, of Hammersmith and Fulham Council, on Government policy, with no balancing viewpoint. We questioned Councillor Loveday about this and he said:

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69 Q 61

70 Ev 236

71 Q 103

72 Ev 253

73 “Businesses brace for huge rates rise”, *H&F News*, 20 October 2009, p 5

I would be surprised if you find a quote from any politician other than a member of the cabinet of the council. The reason for that is that that is the advice that has been given historically to political parties of both persuasions when producing these publications.<sup>74</sup>

65. The Department for Communities and Local Government (DCLG) does issue some guidance that applies to local authority newspapers and magazines. Their *Code of recommended practice on local authority publicity*<sup>75</sup> contains the following guidance on the content and style of local authority publications:

- Any publicity describing the council’s policies and aims should be as objective as possible, concentrating on facts or explanation or both.
- Where publicity is used to comment on, or respond to, the policies and proposals of central government, other local authorities or other public authorities, the comment or response should be objective, balanced, informative, and accurate. It should aim to set out the reasons for the council’s views, and should not be a prejudiced, unreasoning or political attack on the policies or proposals in question or on those putting them forward. Slogans alone will not be an adequate means of justifying or explaining the authority’s views or their policy decisions.<sup>76</sup>

66. However, the DCLG guidance does not cover the format of local authority newspapers and magazines, nor does it specifically address any of the issues raised by local newspaper groups such as direct competition with local newspapers for advertising revenue.

67. The Chief Executive of Ofcom, Ed Richards, told us he thought the area of local authority publishing was “completely unregulated”<sup>77</sup> and that it was a “missing area”.<sup>78</sup> John Fingleton, Chief Executive of OFT, told us he did not think there was a case for the OFT to answer with regards to local authority newspapers and magazines and competition for advertising. He believed that there: “may very well be a problem in terms of harm to the democratic process resulting from that”<sup>79</sup> but that that was for Government to examine, not the OFT.

68. The Government’s final *Digital Britain* report, published in June, concluded that:

While local authority information sheets can serve a useful purpose for local residents and businesses, they will inevitably not be as rigorous in holding local institutions to account as independent local media...the Government is therefore inviting the Audit Commission to undertake a specific inquiry into the prevalence of

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74 Q 257

75 Department for Communities and Local Government, *Code of recommended practice on local authority publicity*, April 2001

76 Department for Communities and Local Government, *Code of recommended practice on local authority publicity*, 2 April 2001

77 Q 390

78 *Ibid.*

79 Q 388

this practice, its impact and to make recommendations on best practice and if restraints should be placed on local authority activity in this field.<sup>80</sup>

69. The Audit Commission review was predominantly concerned with examining the cost effectiveness of councils' spending on publications and did not address the impact of local authority publications on independent local newspapers. The role of the Audit Commission in the examination of council newspapers was outlined by its Chief Executive, Steve Bundred, in a press notice in September 2009:

The Commission's role and expertise do not lend themselves to examining the health of local newspapers or isolating the impacts of specific local authority practices on commercial bodies. This element of the *Digital Britain* invitation appears better suited to regulators with a specific competition remit.<sup>81</sup>

70. The findings of the Audit Commission's review of council publications were published in a letter dated 22 January 2010 to Stephen Timms MP, Minister for *Digital Britain*.<sup>82</sup> The Commission concluded that the "current accountability framework provides adequate safeguards against misuse of public money for political ends" but also recommended that "councils should review their editorial policy to ensure that it is politically neutral and publicly defensible."<sup>83</sup>

71. Subsequently the Newspaper Society has written to the OFT to ask if it will now be taking this matter up. As the Society's Communications Director explained:

It would be unfortunate, given the concerns expressed by the OFT, by *Digital Britain* and by ministers at a senior level within the Government, if the market impact of local authority publications on the commercial local media industry was not examined at all and if no-one was able to make any recommendations to Government on whether constraints should be placed on those local authorities which may be overstepping the mark".<sup>84</sup>

72. We discussed this issue with the then Minister for the Creative Industries at the Department for Culture, Media and Sport, Siôn Simon, who told us that the Government or OFT could not do anything regarding council newspapers until the Audit Commission had completed its study.<sup>85</sup> Mr Simon also told us that he had tried to contact the Audit Commission to discuss this matter, but that they did not return his call.<sup>86</sup>

**73. There is a real problem with local authority newspapers and magazines that needs to be addressed. While it is clear that most of these publications, such as Portsmouth City Council's *Flagship*, are legitimate communications from a council to its citizens,**

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80 *Digital Britain, final report*

81 "Audit commission will not examine impact of council newspapers", Newspaper Society Press Release, 10 September 2009

82 Letter to Rt Hon Stephen Timms MP from Steve Bundred, Chief Executive, Audit Commission, 22 January 2010

83 *Ibid.*

84 "Audit commission will not examine impact of council newspapers", Newspaper Society Press Release, 10 September 2009

85 Q 604

86 Q 603

this cannot be said for all local authority publications. Publications such as Hammersmith and Fulham Borough Council's *H&F News* effectively pose as, and compete with, local commercial newspapers and are misleading to the public. It is unacceptable that a local authority can set up a newspaper in direct competition to the local commercial newspaper in this way. Nor should any council publication be a vehicle for political propaganda.

74. The current DCLG guidance in this area is currently being breached. The DCLG should set up a system to monitor this situation closely. However we believe these guidelines, even if adhered to, do not go far enough. There should be specific, detailed guidance for local authority newspapers and magazines which should state that it be mandatory that all publications of this type make clear, not only on the front page but throughout the publication, that they are a local authority publication.

75. The Audit Commission's review of council publications did not examine the impact that council newspapers are having on commercial local newspapers. We agree with the Audit Commission that it is not their role to do so. We recommend that the Office of Fair Trading should conduct a review specifically on the impact of council publications on commercial local newspapers.

### Public service reporting and the future for local journalism

76. We have already discussed the vital role that local newspapers serve in communities, providing necessary scrutiny of local government and other public institutions such as courts, health trusts and education authorities.

77. The implications of a decline in local newspapers, in terms of quantity and quality, are far-reaching. Reporting on public institutions is a key function of all news media but at a local level it is usually solely the local newspaper that provides this service. We are concerned that there are signs that the problems in the local media industry are leading to a scrutiny gap.

78. Many local newspaper offices are no longer situated in the communities they serve. In the Manchester area the *Rossendale Free Press*, *Accrington Observer* and the *Rochdale Observer*, then owned by Guardian Media Group, have relocated their offices with those of the *Manchester Evening News* in the centre of Manchester. Others we have heard about include the *Wharfe Valley Times*<sup>87</sup> and *Long Eaton Advertiser*.<sup>88</sup> This could have an impact on the 'localness' of these newspapers as they are no longer 'on the beat' in their communities. It may also affect the identity of the titles and the relationship they have with their readership who may live dozens of miles away from the newspaper offices.

79. In evidence to us, the NUJ expressed its concern at the downsizing of local newspaper offices, citing many examples of local newspapers cutting down on staff and resources:

Five day a week titles such as the Reading (Evening) Post are now to be published twice-weekly. Fewer editions mean late or breaking news will be lost or localised content is cut. Hundreds of pages of editorial coverage have been lost every week. Job

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87 Ev 200

88 Ev 151

cuts among specialists mean there will be a loss of expertise. For example the papers in Newcastle lost their rugby correspondent, in Gloucester they lost their health correspondent, in Liverpool their Parliamentary correspondent. The story is the same across large parts of the newspaper industry.

At many centres, news desks, sub-editors and journalists are being moved to centralised locations, often dozens of miles away from the communities served by the titles. It means key decisions about what to cover and how to report it are being taken by people who may have very limited knowledge of the local area.<sup>89</sup>

80. The NUJ believed that these cuts would have a negative impact on the quality of print journalism. It suggested that if there was not enough resources in newsrooms to gather original stories and produce original content, staff on news desk would end up re-writing content they received from news wires and from the internet. This practice was described as “churnalism” in the book *Flat Earth News*, by Nick Davies, and is a subject that we examined in our recent inquiry on press standards, privacy and libel.<sup>90</sup>

81. The NUJ believed that “it is not just newspapers but public service journalism which is under threat.”<sup>91</sup> This sentiment is shared by the Press Association and others. Paul Bradshaw, Professor of online journalism at Birmingham City University, considers that it is journalism that needs preserving rather than local newspapers. He described the up and coming ‘hyper-local’ movement as a natural reaction to what is perceived as a deficit in public reporting.<sup>92</sup> We examine these initiatives in more detail in paragraphs 253 to 263.

82. As already mentioned in paragraph 14, local newspapers and local journalists can be seen as the base of a ‘news pyramid’ underpinning the news industry in the UK. Trinity Mirror described the role that local newspapers play as employers and in the development of journalism:

Regional newspapers are significant employers with a wide geographical spread. In 2007, the last year for which detailed figures are available, a Newspaper Society (‘NS’) survey showed that the industry employed over 41,000 people, nearly 12,000 of whom are journalists. The NS estimates that total employment had fallen to 35,260 (-4%) in 2008 of whom 11,200 (-7%) were journalists.

It is not too high a claim to say that regional newspapers have long been the training ground for UK print journalism. They have invested heavily in training and it has been a tradition of longstanding that young journalists find their feet or cut their teeth on local papers. There isn’t a newsroom on any national newspaper that doesn’t have a very significant number of journalists who started in the regions. Indeed many high profile television and radio journalists started their careers in regional papers.<sup>93</sup>

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89 Ev 153

90 Culture, Media and Sport Committee, Second Report of Session 2009–10, *Press standards, privacy and libel*, HC 362-I

91 Ev 153

92 Q 500

93 Ev 231

83. The Press Association, who we visited at their headquarters in Howden, East Yorkshire, in July 2009, believes that a possible solution to the problems faced by local newspapers would be to develop a model of public service reporting, akin to some of the aims of public service broadcasting. Tony Watson, Managing Director of the Press Association, described the need for a re-evaluation of the way in which local journalism is funded:

Is there not a case to recognise the role that local newspapers play in the life of their communities in holding public institutions to account for that contestable fund to extend to newspapers? The industry has always set its face against direct public funding, for all sorts of reasonable reasons, but I think things are getting so difficult in parts of the regional press now that there is a serious danger that courts and councils and other public bodies will not be covered to the extent that you would wish to be the case in a functioning democracy. I think for the policymakers and the regulators this is an issue to consider very carefully.<sup>94</sup>

84. The Press Association's idea of a public service reporting model would operate by deploying Press Association journalists to report on events at public institutions such as courts, health trusts and police authorities at a local level who would then provide independent content that could be supplied free to local newspapers.

85. The Press Association argue that if a model of public service reporting were adopted in the UK it could be at least part-funded by a contestable public fund in the same way as independently funded news consortia (IFNCs), which we discuss in detail in paragraphs 115 to 139. Tony Watson told us of a pilot scheme that the Press Association would be running, in partnership with Trinity Mirror, that would test how much unreported material there was at local level, and what the uptake for this content would be.<sup>95</sup> The funding for this pilot is undisclosed, although Mr Watson did say that it would not come from the industry.<sup>96</sup>

86. The Press Association's proposal has also attracted criticism. On our visit to Yorkshire in July 2009, we visited the *Yorkshire Post* which is owned by Johnston Press. The Chief Executive of Johnston Press, John Fry, told us that he did not agree with the Press Association's calls for a publicly funded public service reporting model and argued that there was no place for public subsidy. Mr Fry went on to say that he also disagreed with IFNCs, as he would prefer regulation to be reduced and consolidation to occur naturally under market forces.

**87. The importance of reporting on local institutions and local democracy cannot be overstated; without it there is little democratic accountability. This reporting must be independent and good quality in order to inform the public and maintain their confidence.**

**88. Therefore we welcome the Press Association's proposals for public service reporting and the launch of their pilot project. This model could alleviate some of the pressure on local newspapers and could well be a solution to the gap that has emerged as local**

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94 Q 77

95 Q 95

96 *Ibid.*

**papers are increasingly too under-resourced to report on the daily activities in courts and local authorities.**

**89. Despite the bleak reports we have heard about the future for local newspapers, we believe they will still be relevant for some time to come, not least because there is still a population of newspaper readers as well as digital ‘have-nots’. However, to survive local newspapers need to innovate and invest in new technologies. Now more than ever people are turning to the internet and digital media for their news, providing an opportunity to for local newspapers to capitalise on their positions as longstanding local content providers.**

**90. For a long time local newspapers have made relatively little change to their business models. Now, along with the other traditional media platforms of television and radio, they face a vast array of digital and internet services, providing relatively easy market entry, all vying for advertising revenue and readerships. While some economic factors are cyclical, other changes of a structural nature are likely to be permanent. As is clear from the evidence we have heard from local newspapers themselves, local newspapers must innovate and re-evaluate the traditional model of local print media in order to survive in the new digital era.**

### ***Digital and broadcast pools***

91. The Press Association currently operates a ‘digital pool’ whereby Press Association journalists cover national events in text and video and make the content available to clients, at cost, on the Press Association video wire.<sup>97</sup> These clients are national and regional newspapers who are increasingly using video content on their websites. Although the pool covers national events this reporting does still have a regional appeal and relevance. For example an honours ceremony at Buckingham Palace will include local people commended for activities in their communities.

92. The Press Association’s digital pool operates alongside the broadcast pool which is made up of the BBC, ITN and Sky, who share video broadcast content from events where only one camera is permitted. The Press Association is not part of the broadcast pool and traditionally has been denied access to its content. Recently the broadcast pool has made some of its content available to the Press Association, although at considerable cost.<sup>98</sup>

93. Tony Watson, Managing Director of the Press Association, told us:

Single camera assignments where we are offering to make our camera available will always tend to go to the broadcast pool and all we are saying is if you are permitted to move that material to your own online operations, in BBC, Sky, and ITN, and, in the case of ITN, sell that on, that footage ought to be made available to us or to whoever else wants to do the digital pool to pass on to their online audience.<sup>99</sup>

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97 Q 78

98 Ev 280

99 Q 80

94. Mr Watson went on to give the example of broadcast pool footage of a Government press conference on swine flu that the Press Association was denied access to which, he argued, was in the public interest to distribute as widely as possible. The Press Association also told us that event organisers could be confused about who had access to the broadcast pool, and might assume that by allowing the broadcast pool access they were allowing the coverage to be used by local and regional newspapers, which is not the case.<sup>100</sup>

95. Helen Boaden, Director of BBC News, told us that the members of the broadcast pool were “in discussions”<sup>101</sup> about the situation with the Press Association, and stressed that the BBC could not act unilaterally in the pool. Ms Boaden went on to say that “the Press Association does not actually bring enough in terms of people and resource to contribute to the pool.”<sup>102</sup>

**96. It is anachronistic to distinguish between broadcast and non-broadcast journalism. There is a convergence towards multi-platform news journalism and therefore access to video footage of national events, which often have a local or regional angle, should not be exclusive to broadcasters. The BBC, ITN and Sky are all able to use the broadcast pool content online as well as on television and it is against the public interest to deny local and regional newspapers this opportunity.**

**97. There needs to be clarity regarding who has access to footage from, what are currently, single camera assignments. If the members of the broadcast pool are not prepared to make the content available to the Press Association at a reasonable cost, then the Government should ensure the right of access for the Press Association digital pool reporters alongside the broadcast pool at national events.**

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100 Ev 280

101 Q 457

102 Q 461

## 3 Regional news on television

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98. 90% of adults consume some form of local media, with local newspapers and ITV regional news the most popular forms.<sup>103</sup> Regional news on Channel 3 attracts an audience share of around 20% nationally, representing 4–5 million viewers per evening.<sup>104</sup> However, despite its popularity, regional television is currently facing substantial economic difficulties. ITV has encountered the same downturn in advertising and increased competition for audiences, discussed in the previous chapter. It is seeking to deal with these pressures by cutting costs in its business.

99. In this chapter we discuss regional news on ITV and the proposed Independently Funded News Consortia (IFNCs) in detail, along with proposals made by the BBC to make some of their resources available to either ITV or the replacement news consortia. We also discuss the proposed “top-slicing” of the television licence fee as well as the situation with STV in Scotland who are currently in a legal dispute with ITV over their programme schedule.

### The future for regional news on Channel 3

#### *Introduction*

100. Channel 3 is a free-to-air, commercially funded national television broadcast channel. Its coverage is divided up into 15 regions which are historically determined by the location of the transmitters.

101. However, in recent years separate ITV regional companies in England and Wales have consolidated, so that now licences for the Channel are held by only four companies: ITV Broadcasting Ltd (ITV plc) (11 licences), STV group plc (two licences), Ulster Television plc and Channel Television Ltd (one licence each).<sup>105</sup> ‘ITV1’ is the brand name used by ITV plc in its licensed areas, with STV and UTV using their own brands.

102. The provision of regional content on Channel 3, such as news and weather, that caters to the needs of audiences in different geographical areas has been a traditional feature of Channel 3 and of public service broadcasting (PSB) requirements. Licensees are subject to regional programming quotas and, up until recently, ITV1 was required to provide seven hours of regional programming per week, of which at least 5.5 hours must be news and 1.5 hours must be other regional programmes. The overwhelming majority of programming on Channel 3, however, is of a non-regional nature.

103. Licensees are mandated under section 39 of the Broadcasting Act 1990 to conclude a set of arrangements known as the ITV Networking Arrangements (NWA) intended to facilitate the provision of a national television service across the Channel 3 licence regions, which is capable of competing effectively with other television broadcasters in the UK. Channel 3 licensees are also subject to a series of other public service obligations and

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<sup>103</sup> Ofcom, *Putting Viewers First*, January 2009

<sup>104</sup> Ev 179

<sup>105</sup> Ofcom, *Review of ITV networking arrangements*, September 2009

regulation in exchange for privileged access to scarce terrestrial frequencies, due prominence on electronic programme guides and ‘must-carry’ status on cable networks.

### **ITV's Public Service Broadcasting commitments**

104. In recent years, the economic pressures on ITV have led it to argue that the costs of meeting its public service obligations will soon outweigh the value of the benefits it enjoys.

105. In January 2009, ITV plc was fined £220,000 by Ofcom for failing in 2006 and 2007 to meet its out-of-London programme production quota for ITV1 (that at least 50% of money spent on ITV1 Network originated content each year is produced outside the M25 area). ITV's then Executive Chairman, Michael Grade, said that the fine was “yet more clear evidence that the regulatory burden on ITV is 20 years out of date. Our duty is to invest as efficiently as possible in UK production, not to be an instrument of governmental industrial policy or social engineering.”<sup>106</sup>

106. ITV set out the cost-benefit analysis of their PSB licences from 2008–2014 in the table below:

PSB costs/benefits £m	2008	2009	2010	2011	2012	2013	2014
PSB costs to ITV	201.7	143.0	129.4	120.8	119.8	120.4	123.1
PSB benefits to ITV	232.2	155.5	123.2	76.5	42.6	38.8	40.3
PSB value	30.5	12.5	-6.2	-44.3	-77.2	-81.6	-82.9

Source ITV; Ev 261

107. It is also reported that in Scotland and Northern Ireland, STV and UTV respectively are facing deficits on their PSB licences.<sup>107</sup>

108. In 2008, ITV applied to have its regional obligations reduced, and a subsequent Ofcom review of public service broadcasting, in January 2009, did reduce ITV's commitments for regional news output, although not by as much as ITV had asked for. Ofcom reduced the commitment for regional news to four hours a week and the quota for non-news output in the English regions to 15 minutes per week.<sup>108</sup> Ofcom's report also recommended the creation of independently funded news consortia (IFNCs), which, although independent of Channel 3, would produce and broadcast regional news in the slots currently in the Channel 3 schedule. We discuss the case for IFNCs as a long-term replacement for ITV news below at paragraphs 115 to 139.

109. ITV plc has told us that production of regional news is no longer viable, and that it will not be able to deliver these services to England and Wales beyond 2011.<sup>109</sup> Michael Grade stated that it costs ITV around £50 million to produce all of its regional news

106 “ITV fined £220,000 by Ofcom over regional quotas”, *Guardian Media*, 16 January 2010

107 Ev 179

108 Ofcom, *Putting Viewers First*, January 2009

109 Ev 260

programming, but that ITV receives very little advertising revenue from time slots around regional news.<sup>110</sup>

110. Ofcom's response to the Government's consultation on delivering TV news in the nations and regions states does not agree entirely with the picture painted by ITV, but does state that it believes that by 2012 the benefit to Channel 3 of its licences will be outweighed by the costs:

The costs of the Channel 3 licences to provide ITV television programmes across the UK will outweigh the benefits by 2012. [...] the Channel 3 regional network licences could be in deficit to the tune of £38–£64 million by 2012.<sup>111</sup>

111. We asked the then Executive Chairman of ITV, Michael Grade, whether ITV could carry on providing its current level of regional news until a full replacement was in force. He told us:

I do not think I can answer that directly at the moment because we do not know what the numbers will be. There is also a review going on presently on the cash costs of our licence which Ofcom has undertaken; so you have to look at all the elements of the PSB requirements, including the cash costs of the licence, see where that comes out, look at the value of the licence and then decide what cuts you are going to have to make to get it back into line. I certainly would not rule out further cost-cutting in regional news but I do not think it is a foregone conclusion, depending on the outcome of those other deliberations.<sup>112</sup>

112. In January 2010 Archie Norman took over from Michael Grade as Chairman of ITV. In March 2010, news reports suggested that Mr Norman was reconsidering Michael Grade's decision to end ITV's regional news production due to growing concern from ITV executives about IFNCs.<sup>113</sup> An article in *Guardian Media* stated:

[...] ITV executives are concerned about keeping control of advertising airtime around the regional news slots on ITV1, the quality of the proposed replacement services, and the longer-term implications of losing control of parts of the schedule on its flagship network.

In the English regions, the main ITV1 regional bulletin goes out between 6pm and 6.30pm, with other shorter local updates in the morning and at the end of the 1.30pm and 10pm network news programmes.

Another concern within ITV is said to be that the consortiums cut across Norman's attempts to boost the broadcaster's standing with the City, potentially grooming it for a sale or takeover, which could be hampered by a series of messy, publicly funded regional news partnerships.<sup>114</sup>

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110 Q 516

111 Ofcom, *Response to Sustainable independent and impartial news in the Nations, locally and in the regions*, September 2009

112 Q 520

113 "ITV's Archie Norman considers U-turn on dumping regional news", *Guardian Media*, 17 March 2010, guardian.co.uk

114 *Ibid.*

113. At the time of writing this Report there have been no official statements from ITV regarding a change in their plans for regional news provision.

**114. Existing, and potential further, reductions in regional news on channel 3 have serious implications for the maintenance of plurality of regional news on television. We are deeply concerned that ITV is already running into deficit with its PSB obligations for regional news production, and has suggested that, if left unaddressed, ITV may walk away from these. We welcome reports that the new Chairman of ITV may be reconsidering this strategy, but believe that, to support this, the PSB obligations and other regulatory burdens on ITV need to be reduced, if not removed.**

### ***Independently funded news consortia***

115. Ofcom and the Government have proposed that the solution to the withdrawal of ITV plc as a regional news provider is to launch independently funded news consortia that would supply the content for the regional news slots on Channel 3 and are described by Ofcom as “the most suitable way to secure sustainable plurality in regional television news.”<sup>115</sup> IFNC participation would be open, but not be limited to, existing television news providers, newspaper groups or other newsgathering agencies<sup>116</sup> who would bid for the Channel 3 news contract in each region. The winner would be decided by an independent panel.

116. Ofcom has outlined what it sees as the benefits to the public of the introduction of IFNC’s as follows:

the creation of independent news consortia, funded by competitive tender, [...] [would] deliver a choice of regional news across the UK on the Channel 3 schedule. These could offer greater localness and cross-media news provision.

The consortia could be made up of existing television news providers, newspaper groups or other newsgathering agencies. They could be chosen against a range of public criteria, including the ability to achieve the reach, editorial standards and overall quality of current Channel 3 regional productions.<sup>117</sup>

117. The schedule initially proposed for the IFNC roll-out was outlined in the final *Digital Britain* report:

The Government is minded to mount three pilot IFNCs before 2012, aiming to begin in 2010 – one in Scotland, one in Wales (where S4C have already done work to develop a related initiative) and one in an English region which would be the most likely to demonstrate true contestability, without involving the current Channel 3 incumbent licensee. One of the objectives of the pilots will be to test the scope and scale of commercial funding.<sup>118</sup>

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115 Ev 168

116 *Digital Britain, final report*, p 156

117 Ofcom, response to *Sustainable independent and impartial news in the Nations, locally and in the regions*, September 2009

118 *Digital Britain, final report*, p 157

118. On 26 November 2009, DCMS announced that the Tyne Tees and Borders region would be the location of the pilot IFNC in England. It also launched the tender process for all the pilot IFNCs. DCMS gave late March 2010 as the date for announcement of successful bidders, with the service starting in summer 2010.<sup>119</sup>

119. Currently the Tyne Tees and Borders area incorporates two ITV licence regions. They form a cross border region serving part of the north west, south and south west of Scotland as well as north east England. DCMS states that this pilot could allow those in Scotland to receive Scottish (rather than English) news, though “some technical engineering to existing transmitters” would be required.<sup>120</sup> The then Minister for the Creative Industries, Siôn Simon, told us that the budget for the three IFNC pilots was £20 million per annum for a minimum of two years, with an option to extend that to three years.<sup>121</sup>

120. The provisions for IFNCs are set out in the Digital Economy Bill. The Bill states that “Ofcom must publish the criteria that they intend to use in making an appointment [of a regional news provider]”<sup>122</sup> and those criteria may include the definition of the “relevant media content.” The Bill defines “relevant media content” as:

material, other than advertisements, which is included, or is capable of being included, in any of the following services that are available to members of the public in all or part of the United Kingdom—

- (a) television programme services, additional television services or digital additional television services,
- (b) on-demand programme services, or
- (c) other services provided by means of the internet where there is a person who exercises editorial control over the material included in the service.<sup>123</sup>

In other words, Ofcom will stipulate which media platforms and services are deemed to be relevant for IFNCs.

121. These criteria do not mention radio services, and, when we asked Siôn Simon for clarity on what he thought the make-up of IFNCs would be, he told us:

We will want to send very clear signals that plurality of consortia member, of platforms, of provision, will be the watchword of what we are looking for. So it is unlikely that the procurement specifications will include an absolute requirement for radio but I would expect the documents to make it clear that bids that included, for instance, radio and community radio were much more likely to be stronger bids than those that did not.<sup>124</sup>

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119 Department for Culture, Media and Sport, *Independently funded news consortia pilots: process for selection of providers*, 26 November 2009

120 “Regional news pilot for Tyne Tees and Borders”, Department for Culture, Media and Sport press release 157-09, November 2009

121 Q 623

122 Digital Economy Bill [*Lords*], clause 28 (10) [Bill 44 (2009–10)]

123 Digital Economy Bill, clause 28 (10)

124 Q 626

122. The bill also provides that the regulatory regime for the regional Channel 3 service should include conditions relating to the “form, character and quality of the relevant media content,”<sup>125</sup> although the Minister was unable to elaborate on what requirements Ofcom would impose to determine quality.<sup>126</sup> DCMS told us they anticipated IFNCs being formed of multiple media organisations, who form consortia by way of a commercial process, and expected that there will be multiple bids in each of the regions.<sup>127</sup>

123. ITV have already said that they will not be participating in any of the IFNCs, which means that regional journalists currently employed by ITV will have to seek employment with the new IFNCs.<sup>128</sup> A DCMS press release in January 2010 gave details of the successful bidders in the first stage of the selection process for the pilot IFNCs, who will go through to the next stage of the procurement. They are:

#### **Wales**

ITN with Newsquest, Northcliffe Media, Tindle, Boomerang and ITV Wales news staff;

Tinopolis;

UTV with NWN Media Ltd.

#### **Scotland**

Johnston Press with the Herald and Times Group, Tinopolis, and D C Thomson;

STV with ITN and Bauer Radio

#### **Tyne Tees/Borders**

ITN with Johnston Press, Newsquest, Metro Radio, University of Sunderland and ITV Tyne Tees and Borders news staff;

Trinity Mirror with the Press Association and Ten Alps;

UTV

*Source: DCMS press release 002/10; 13/01/2010*

124. There is considerable support for IFNCs from within the media industry. The Press Association, which “strongly supports”<sup>129</sup> the proposal to establish IFNCs, believes that it could play an important role in supporting the development of multimedia newsrooms in the nations and regions, “helping local and regional news providers to invest in newsgathering and journalism,” and that it would be “ideally positioned to play a key role in video newsgathering for the consortia.”<sup>130</sup>

125. ITV plc is also supportive of IFNCs, and describes them as an “imaginative, ground breaking policy proposal to bring a new approach to local and regional news.”<sup>131</sup> However,

125 Digital Economy Bill, clause 28 (10)

126 Q 626

127 Q 628

128 Q 537

129 Ev 240

130 Ev 242

131 Ev 260

ITV only extends full support to IFNCs in Scotland and Wales, whereas for consortia in England its support has caveats:

the current piecemeal implementation plan for IFNCs in the English regions is unlikely to deliver an efficient, high quality service to compete effectively with that of the BBC and will not balance ITV's PSB licences in the short to medium term. Ultimately, if it is not possible to expedite the full introduction of the IFNC proposal in the English regions with one contest for a Master Contractor in 2010, some other route will need to be found to ensure the survival of regional news in the English regions more rapidly than is currently proposed. In this context ITV is keen to continue a constructive dialogue with Ofcom and Government in relation to potential solutions.<sup>132</sup>

126. In response to these concerns, the Minister told us that ITV would get some financial relief when the IFNC pilots that were launching in 2010 started running a regional news service.<sup>133</sup> He also described a provision in the Digital Economy Bill that would allow the Secretary of State to “vary or suspend the different bits of any broadcasters public service licence obligations”<sup>134</sup> so in the eventuality that ITV was unable to meet its PSB obligations, there is provision for Government intervention to ensure a plurality of regional news on television until the IFNCs are fully functioning.<sup>135</sup>

127. ITV plc's support of IFNCs in England is also contingent on “additional advertising minutage on ITV not forming part of the solution to the future funding of regional news since it would reduce the existing advertising revenues of ITV1 (and all commercial broadcasters) and the regional press.”<sup>136</sup> DCMS have not decided whether to allow IFNCs to sell advertising slots in their regional news broadcasts.<sup>137</sup>

128. An additional problem is that the contracts for the IFNC pilots will not be finalised until May 2010, and full coverage will not be reached until the summer of 2010. If the pilot is a success, IFNCs will be rolled out but the process will not be completed until 2013, leaving the prospect of a worrying gap in regional news coverage.

129. It is also worth noting that IFNCs do not have cross-party support, so the outcome of the General Election will have a bearing on their future. Speaking at the Oxford Media Convention, Jeremy Hunt, the Shadow Secretary for Culture, Media and Sport, explained Conservative opposition to IFNCs:

Using the licence fee to prop up regional news simply casts a failed regional TV model in aspic. It would actively prevent the emergence of new, local media models, making broadcasters focus their energies on satisfying politicians not reaching viewers.

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132 Ev 260

133 Q 631

134 Q 632

135 *Ibid.*

136 Ev 260

137 Q 635

[...]we want to see the emergence of a radically different, improved and forward-looking local media sector. Not just local TV, where we are about the only major developed country not to have proper city-based TV franchises. But profitable, hungry and ambitious local radio, local newspapers and local websites as well.<sup>138</sup>

130. Mr Hunt went on to outline Conservative proposals that would “sweep away the cross-media ownership rules at a local level.”<sup>139</sup> He said:

This will allow local media operators to follow viewers, as they increasingly switch platform at a moment’s notice, whether from TV to radio to mobile or to online. It will allow a consistent and strong new offering to advertisers: go with us and we will reach consumers in a defined geographical area whichever platform they use.<sup>140</sup>

131. We asked Michael Grade what he thought would happen in the eventuality that the next Government did not support IFNCs. He told us:”so far as ITV is concerned, if a future Conservative Government decided to abandon the IFNC issue, the quid pro quo is that we would have to be relieved of those PSB obligations which brought our licences into deficit.”<sup>141</sup>

132. During our inquiry we have focused mainly on regional content offered on Channel 3. However there are other local television stations in the UK that cater solely for their local audience and, it has been argued, might fill the gap created by the withdrawal of ITV from regional news programming.

133. Ofcom has suggested to us that the digital switchover could provide an opportunity for further development of local television services in the UK. This could provide a better solution in the long term, as their services would be tailored for specific local communities, rather than defined by artificial regions determined by transmission areas. However, given the current scale of local television it is extremely unlikely that such channels would offer a credible solution to the problem in the near future. As Ofcom explained:

There is currently little local TV in the UK, in contrast to a range of other European countries, in part due to the uncertainties surrounding the economics of commercial local television. Recent analysis conducted during Phase 3 our Second PSB Review shows that even city-based local television may not be profitable outside the major markets of London and Manchester. There are currently only four local TV stations broadcasting on terrestrial TV (Channel M in Manchester; MATV in Leicester; Northern Visions in Belfast; and York TV).<sup>142</sup>

134. On 17 March 2010 GMG, owners of Channel M, announced that it was no longer going to produce original content for Channel M, and that it was going to cut staff and only air archive material.<sup>143</sup>

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138 “Jeremy Hunt: Tories will kill broadcast news pilots”, *Press Gazette*, 21 January 2010, [pressgazette.co.uk](http://pressgazette.co.uk)

139 *Ibid.*

140 *Ibid.*

141 Q 521

142 Ev 183

143 “GMG to drop original programming and cut staff at channel M”, *Guardian online*, 17 March 2010, [guardian.co.uk](http://guardian.co.uk)

135. The situation with regional news on Channel 3 is in danger of reaching a crisis point that could jeopardise the plurality of regional television news. To protect this, a way of ensuring the continuation of a regional news service on Channel 3 needs to be found, offering an additional and alternative service to that provided by the BBC. It is unacceptable for there to be any situation in which the public is reliant on only one provider, the BBC, for regional television news.

136. We therefore welcome the launch of the IFNC pilots. However, given the lack of cross-party support for IFNCs, their future is highly uncertain.

137. It is vital that there is a continuation of a regional news service on Channel 3 until the introduction of IFNCs, and we are concerned that the time lag until IFNCs become fully functioning in 2013 may lead to a worrying deficit. If it is not financially viable for existing Channel 3 licensees to provide this service because the cost of doing so exceeds the value of their licences then other, non-regional, obligations of those licensees should be partially or completely suspended, in order to alleviate the financial burden and to ensure the continuation of regional news by existing Channel 3 licensees.

138. Given the importance, of regional television news, we recommend that the final regulatory provisions for IFNCs make clear the priority that must be accorded to the replacement of the regional television news service within the respective Channel 3 regions, with provision via internet services and other outlets provided on an additional and complementary basis, although we recommend that the IFNC selection panel favour bids that also contain radio provision.

139. We are sceptical about ITV plc's support for IFNCs being contingent on their retaining the advertising in regional news slots as they also argue that there is little revenue to be gained from advertising around news. If the cost of fulfilling regional news vastly exceeds the revenue involved, we can see no reason why this small advertising revenue should not be allowed to help fund replacement for Channel 3 news providers. We recommend Ofcom and the OFT conduct more research on this.

### ***Top-slicing and the funding of IFNCs***

140. Ofcom has suggested that the IFNC replacement for Channel 3 regional news could cost in the region of £40–60 million per annum.<sup>144</sup> In response to the consultation on *Sustainable independent and impartial news in the Nations, locally and in the regions*, DCMS outlined the proposed funding of IFNCs:

The Government remains convinced that sustaining plurality of voices in news in the Nations, locally and in the regions will require public funding. Following the findings of the public consultation and BMRB's independent market research, the Government's preference for the long-term remains to maintain, in the next Television Licence Fee settlement, the contained element of the television licence fee that is currently not used for BBC content and services, in order to support plurality

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144 Speech by Ed Richard, Ofcom Chief Executive, Government Local Media Summit, 28th April 2009, Ofcom.org.uk

of news sources in the Nations, locally and in the regions, as laid out in the *Digital Britain* White Paper. This is supported by both audiences and industry.<sup>145</sup>

141. This use of the contained element of the television licence fee that is currently not used for BBC content and service is a highly contentious measure. Perhaps unsurprisingly the BBC Executive and Trust, who, on the whole support the principle of IFNCs, do not support the use of the television licence fee.

142. The BBC Executive told us that Ofcom had “underestimated the likely revenues and public assets that are available to support IFNCs”<sup>146</sup> and that therefore “it is not clear that additional public funding is necessary.”<sup>147</sup> The ‘likely revenues and public assets’ that the BBC Executive refer to are: advertising revenues which, the BBC argues, could be generated from the Channel 3 news slots and also sold across multiple media platforms within an IFNC; the re-arrangement of the PSB obligations or ‘regulatory assets’ (such as spectrum); and cost efficiency savings made from economies of scale when the organisations within an IFNC consolidate their news gathering resources.<sup>148</sup>

143. The BBC Executive also explained to us that it had wider, overall objections to the top-slicing of the licence fee:

A decision to use licence fee funding to support commercial organizations raises significant risks that the BBC has previously outlined. First, it would risk breaking the unique link between licence fee payers and the BBC. BBC research suggests that the public understand what they are paying for under the current model: 70% of the public spontaneously mention the BBC when asked which broadcasters are funded by the licence fee; prompted awareness rises further, to 86%. Second, it would require that strong accountability mechanisms be put in place for new recipients of public money. Third, it would mix public funding and advertising revenue within commercial organisations, potentially weakening commercial incentives and advantaging some commercially funded news operators over others.<sup>149</sup>

144. In our previous Report, *Public service content*,<sup>150</sup> we recommended that if a shortfall in news provision on Channel 3 was envisaged, part of the television licence fee could be used to support regional television news.

145. The Government has said that “the television licence fee is not the BBC licence fee”<sup>151</sup> and that, in principle, the BBC has no exclusive right to it. Although there is no statutory obligation for the BBC to help other broadcasters, the Chairman of the BBC Trust, Sir Michael Lyons, has said that “the BBC also has a duty to help other public service

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145 Department for Culture, Media and Sport, *Government response to the consultation on Sustainable independent and impartial news in the Nations, locally and in the regions*, September 2009

146 Ev 197

147 Ev 198

148 *Ibid.*

149 *Ibid.*

150 Culture, Media and Sport Committee, First Report of Session 2007–08, *Public service content*, HC 36, para 107

151 *Government response to the consultation on Sustainable independent and impartial news in the Nations, locally and in the regions*

broadcasters whose funding is now under strain.”<sup>152</sup> However the assistance which Sir Michael Lyons refers to is unlikely to be part of the licence fee, but rather the BBC’s proposals for partnerships with commercial media groups.

**146. The television licence fee is collected in order to fund public service television, which is not confined to the output of the BBC. Plurality of regional news provision is vital in a democracy, therefore we restate our support for the principle of public funding, and note the Government’s existing suggestion that this could be met from that part of the income of the licence fee that is currently allocated to the digital switchover help scheme.**

### BBC partnership proposals

147. The role of the BBC in the local media landscape is not a new topic for us. In our recent Report *BBC Commercial Operations*,<sup>153</sup> we considered the BBC’s plan for a new on-demand local video service (a separate proposal that was not in fact a commercial activity). The proposal would have provided local news and video content on 65 existing local BBC websites in England and Wales, at a cost of £68 million over four years. However, the proposal was rejected by the BBC Trust in November 2008 “because it would not improve services for the public enough to justify either the investment of licence fee funds or the negative impact on commercial media”.<sup>154</sup> We welcomed this decision, and recommended that the BBC should instead be looking to help, rather than hinder, local newspapers and radio stations. We also recognised that “it is apparent that this decision does not necessarily spell the end of the BBC’s ambitions in this area, and the Trust must continue to exercise caution when reviewing any revised plans”.<sup>155</sup>

148. As things currently stand, the BBC’s investment in the nations and regions across the UK means that it supports a comprehensive range of multi-platform services:

- Dedicated news, current affairs and political programming for the nations and English regions. On TV, the BBC’s nations and regional news bulletin at 6.30pm is the UK’s most watched news programme;
- 40 local radio services in England;
- 6 nations radio services including Welsh and Gaelic stations;
- 60 BBC local websites plus Welsh, Gaelic and Irish language websites.<sup>156</sup>

149. The BBC has told us that “it is important that the BBC’s approach is sensitive to the wider market while delivering strong public value.”<sup>157</sup> However, the BBC has faced some strong criticism in the past for its expansion into new areas of the media, and the resultant adverse impact on existing commercial operators. Local newspaper publishers DC

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<sup>152</sup> BBC Executive, *BBC Annual Report and Accounts 2008/09*, p 5

<sup>153</sup> Culture, Media and Sport Committee, *Seventh Report of Session 2008–09, BBC commercial operations*, HC 24

<sup>154</sup> “Upholding licence fee payers interests”, BBC Trust Press Release, 21 November 2008.

<sup>155</sup> Culture, Media and Sport Committee, *BBC Commercial operations*

<sup>156</sup> BBC Executive, *BBC Annual Report and Accounts 2008/09 Part One*, July 2009

<sup>157</sup> Ev 192

Thomson, reiterated this point in their written submission to our inquiry, arguing that it was “better able to compete in the absence of an expansion or strengthening of the BBC at local level”.<sup>158</sup>

150. The BBC outlined to us a series of partnership proposals designed to benefit the wider creative economy:

The BBC has formulated a partnership offer whereby it would make available a range of services (including access to the BBC’s infrastructure and technology) to either ITV or a replacement set of news consortia on Channel 3;

The BBC proposes sharing a sub-set of the BBC’s UK video news content with newspaper websites;

The BBC’s College of Journalism may be opened to public in the summer;

The BBC will consider acquiring video footage of local news stories from third parties such as the Press Association, rather than generating the content itself.<sup>159</sup>

151. The Government’s *Digital Britain* report welcomed the BBC’s partnership proposals, but did qualify this by posing an (unanswered) question: “if journalistic and editorial plurality is a key objective, how far [can] the BBC itself [...] go in partnership?”<sup>160</sup>

152. It is currently unclear how these partnership proposals could be enacted, especially given that ITV has categorically stated that the proposed partnerships would not be of sufficient benefit to be a meaningful solution to ITV’s PSB deficit.<sup>161</sup> Ofcom suggested to us that, given this, the partnership proposal was unlikely to get off the ground:

The proposed BBC/ITV partnership in relation to TV regional news provision is unlikely to be put into practice given that ITV does not see it delivering enough benefits to secure ongoing regional TV news. In January 2009, Michael Grade wrote an article in the *Telegraph* discussing regulation and the commercial pressures the industry was facing. In relation to possible partnerships with the BBC, he wrote that ‘ITV and the BBC would share facilities, buildings and technologies across the UK – making commercially funded regional news much more cost efficient’.<sup>162</sup>

153. Ofcom went on to say that there could be benefits from BBC partnerships with local and community radio, which we discuss in more detail in paragraphs 185 to 190, but in general Ofcom was “currently in dialogue with the BBC and the BBC Trust regarding the BBC’s role in the local media ecology.”<sup>163</sup>

154. The Press Association has expressed concern that free content sharing, or “dumping”, by the BBC could distort the market and have very damaging implications for commercial

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158 Ev 226

159 Ev 182

160 *Digital Britain, final report*, Cm 7650, June 2009, p 142

161 Q 549

162 Ev 182

163 Ev 183

news provision. It felt that the BBC's partnership proposals would in fact result in "a reduction in diversity, with providers only having access to BBC content which they are unable to monetise."<sup>164</sup> Perhaps more tellingly, the Press Association observed that "content sharing will set the BBC up as an agency provider of video news, a role currently fulfilled by the Press Association"<sup>165</sup> which would ultimately present a threat to their business model.

155. The Press Association instead suggested an alternative range of other proposals where it felt the BBC could help the industry by way of knowledge sharing and collaborative working:

- Sharing audience and usability research;
- Sharing online usage data;
- Developing solutions on technical infrastructure;
- Developing common standards for metadata and tagging.<sup>166</sup>

156. The Press Association told us that the BBC had already conceded that some types of content did not need to be gathered by more than one news organisation. The Press Association agreed that duplication of newsgathering around such content "soaks up previous resources that could be applied elsewhere to help differentiate news output."<sup>167</sup> It went on to say that the BBC "could support plurality by outsourcing a percentage of its newsgathering operation to commercial providers. This model could see the BBC contributing to core video newsgathering by an agency, which also supplies video content to local and regional news companies".<sup>168</sup>

157. DC Thomson also expressed concern at the potential partnerships, suggesting that they "may in fact be a Trojan horse undermining newspapers' development from within,"<sup>169</sup> and result in other media organisations being forced to carry BBC content on their websites.<sup>170</sup> This opinion was echoed by the NUJ, who voiced concern about the affect the BBC partnership proposals might have on plurality and standards in local media:

The NUJ has a number of concerns about the way in which partnerships between the BBC and other media operators could damage plurality and undermine quality journalism. Any moves in this direction must ensure that editorial integrity of different operators is not damaged – that the news agenda does not become merged by default. The current proposals are said to include the idea of regular morning news meetings, which would seem to indicate a danger of a single news agenda being set.

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164 Ev 242

165 *Ibid.*

166 *Ibid.*

167 *Ibid.*

168 *Ibid.*

169 Q 42

170 *Ibid.*

The availability of footage is clearly crucial in determining what is covered, and therefore where footage is shared, it is likely that difference between bulletins will be reduced. There are also a number of practical aspects that must be addressed. Some of these issues, such as space requirements, could be dealt with through local negotiations, but broader issues, such as systems for booking crews have wider implications for editorial integrity and the quality of the finished journalistic product.<sup>171</sup>

**158. Whatever the outcome of the discussions with Ofcom, plurality in local media must be the priority in any future partnerships that are forged between the BBC and other media groups. It would not be acceptable for a single news agenda to become the norm in the UK, whether it is driven by the BBC or anyone else. However the sharing of resources and experience in order to make cost efficiencies should be encouraged. The BBC should not expect extra funding in order to do this.**

**159. We welcome Sir Michael Lyons' acknowledgement that the BBC has a duty to help other broadcasters although the BBC needs to be clearer about what this means in practice. We also believe that such a duty should be included in the BBC Charter. However we would not support an expansion of public intervention or funding of the BBC in order for it to help other broadcasters.**

### Scottish regional television

160. Both of the regionally allocated Channel 3 licences in Scotland, one for the north of Scotland and one for central Scotland are held by STV. The programme schedule on Channel 3 in Scotland has traditionally overlapped considerably with the Channel 3 programmes aired by ITV in England. However, in 2009 STV "opted-out" of a large number of peak-time drama programmes including *The Bill*, *Agatha Christie's Marple*, *Midsomer Murders* and *Doc Martin* in order to release airtime and save money (STV receives a rebate of 6% of the budget of any programme it drops) to fund its own regional content.

161. Opting-out of the ITV network schedule is not a new practice for STV. However the scale of opt-outs has increased considerably. It is estimated that in 2008 £375,000 worth of opt-outs were made by STV; by 2009 this had jumped to £4.5m.<sup>172</sup> According to Alan Clements, STV Director of Content, these savings were a major consideration in the decision to drop the ITV drama programmes. However, he added, many elements of the ITV schedule would be retained such as: *I'm a Celebrity...Get me Out of Here*, *The X Factor*, and soap operas as well as factual programmes, whose budgets were too low to be worth opting out of.<sup>173</sup>

162. These opt-outs have resulted in a legal dispute between ITV and STV. In September 2009 ITV sued STV for a reported £38 million claiming that by opting-out of so many programmes STV were in breach of their network agreement. In November 2009 we asked

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171 Ev 160

172 "STV says cost savings were major reason for axing ITV drama", *Broadcast* magazine, 1 October 2009

173 *Ibid.*

Bobby Hain, Director of Broadcast Services and Regulatory Affairs at STV, to outline the legal situation between ITV and STV. He told us:

We have been trying for over two years to reach a position with ITV going forward which reflects both of our business's needs and requirements, our objectives and also attempts to streamline the networking arrangements that underpin the Channel 3 network itself, and throughout that period we have become very frustrated that we have not managed to make progress. Going into a legal arena was never our first choice.<sup>174</sup>

163. STV subsequently launched a counter-claim and as of March 2010 the court case is still ongoing.

164. In oral evidence Bobby Hain explained that ITV had rejected an offer by Ofcom to “preside over a process of binding arbitration.”<sup>175</sup> Ed Richards, Chief Executive of Ofcom, confirmed this in evidence to us:

We are obviously in contact with both companies and we did make an offer to try and arbitrate in some form, both for the existing disputes between the two companies and in relation to future disputes. That offer was made but it obviously requires both parties to accept it and that did not happen, so we have not done it.<sup>176</sup>

165. We questioned Michael Grade about ITV's reluctance to settle the dispute. He told us:

I think the courts are the right place to resolve a commercial issue of this kind. If there were to be any idea of arbitration that should be through a judicial process and not through the process of the industry regulator who has conflicting statutory requirements to ensure the health of PSB and so on and so on. I do not think Ofcom could possibly be regarded – for good statutory reasons; it is not a criticism of Ofcom – as an honest broker in that situation, because they are required by statute to have regard for the delivery of PSB in the UK. This is a simple matter of what is right and wrong commercially. Ofcom would have to bring to it their statutory requirements: “Well, it would be a bad thing for Scottish viewers if this decision went against Scotland”. It would not be an objective exercise.<sup>177</sup>

166. Following Michael Grade's evidence to us, Rob Woodward, Chief Executive of STV, wrote us saying Michael Grade's remarks about STV were “factually incorrect, misleading and damaging to STV.”<sup>178</sup> Mr Woodward told us that he believed STV had an “absolute right” to opt-out of the network schedule within agreed parameters, and that ITV were suing STV for opt-outs that had been agreed, hence STV's counter-claim.

**167. It is unfortunate that the agreement between STV and ITV has deteriorated to the point where it has turned into a legal dispute. This can only be damaging to Channel 3.**

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174 Q 339

175 Q 342

176 Q 408

177 Q 571

178 Ev 275

**168. We regret that ITV did not take up the offer made by Ofcom to arbitrate in these matters. This is now a matter for the courts. Whatever the outcome we hope that it will clarify the network agreement and prevent any legal dispute in the future**

## 4 Local radio

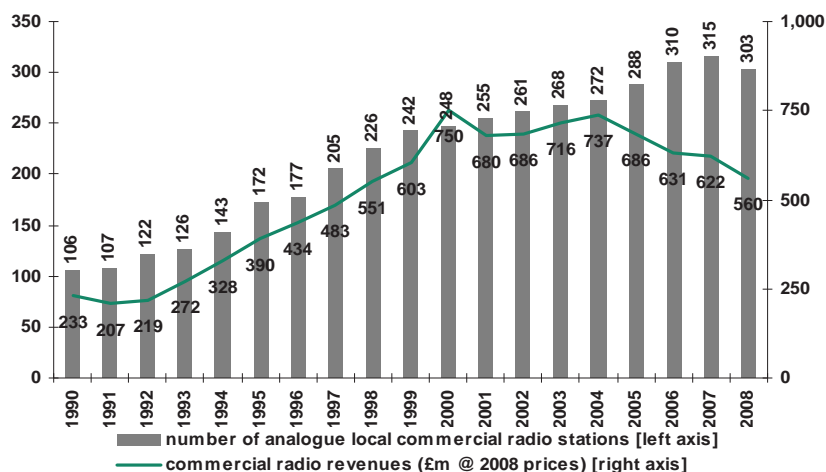
169. Local news, travel and weather are the content which is most listened to on local radio, with 84% of radio listeners listening to local radio news.<sup>179</sup> However the ‘softer’ content on local radio is also highly valued. Locally themed chat shows, phone-ins and live discussion of community issues offer listeners an interactive local service that appeals to a wide demographic, including the digital ‘have-nots’ and those who do not use the internet.

170. As with other local media, the local commercial radio sector is feeling the effects of cyclical and structural changes, particularly on advertising revenues. Proposals for a digital switchover for many radio services will also have a significant impact on local radio, and although the exact date of the switchover is not finalised, the *Digital Britain* report and subsequent Digital Economy Bill do set out, to a certain extent, a pathway for the future of local radio in the digital age.

### The state of local commercial radio

171. In 2008 there were 305 local commercial radio stations in the UK. In addition there were 40 BBC local radio stations. The local commercial radio industry has appeared to reach saturation point in recent years: 100% geographic coverage was reached in the mid-1990s, and both the total hours listened and the number of stations have since reached a plateau.

172. Local commercial radio has also suffered from a similar fall in revenues to local newspapers. Since 2004, revenues have been in steady decline:



Source: Ofcom, Radio Advertising Bureau

173. RadioCentre is the industry body for commercial radio, and its membership comprises the majority of UK commercial radio stations, who fund the organisation. RadioCentre told us that, in its view, recent warnings of the death of traditional media – at the hands of new platforms such as the internet and mobile – were premature. Radio, it believed, “has a clear role in a world where people are increasingly busy but still require

relevant information and personal entertainment delivered in a convenient and complementary way”.<sup>180</sup> Nevertheless, RadioCentre told us it recognised the need for the industry to “act decisively and promptly to modernise itself in order to remain relevant to listeners and advertisers”.<sup>181</sup> As with print media, which we examined earlier in this Report, commercial radio is feeling the combined effects of a severe economic downturn and structural change in advertiser and consumer behaviour. RadioCentre reported that the migration of advertiser revenues to online and digital media has been particularly significant.<sup>182</sup>

174. Ofcom has also attributed much of this decline in revenue to the migration of advertising from commercial radio to the internet.<sup>183</sup> Ofcom highlighted that if the more pessimistic forecasts by media analysts were to be realised, by the end of 2009 many of the smaller radio stations serving less than 700,00 people would be making a loss.<sup>184</sup>

175. The Myers Report, an independent review of the rules governing local content in commercial radio, stated in April 2009 that more than 50 stations around the country could be forced out of business unless there was a radical overhaul of the way the sector was regulated.<sup>185</sup> Authored by former Guardian Media Group Radio Chief Executive, John Myers, the review was a key element of the Government’s interim *Digital Britain* report and fed into its subsequent final report and recommendations. However, in July 2009 we received a letter from the Chief Executive Officer of RadioCentre, Andrew Harrison, who said that 2009 had, up to that point, seen only seven station closures.<sup>186</sup>

## Regulation of local radio

176. Claire Enders told us that “the radio sector in this country is the most regulated of all the media sectors”.<sup>187</sup> RadioCentre noted in its submission to us that, while digital technology offered opportunities to produce, edit and transmit compelling local content in new ways, in practice this had been “stymied by existing legislation and regulation.”<sup>188</sup> It explained that in the analogue era, the provision of ‘localness’ was ensured by regulating certain ‘input’ measures, such as the number of hours of programmes broadcast from a certain town, or where the studio was based. RadioCentre argued that “digital technologies render these proxies redundant.”<sup>189</sup> Accurate local traffic news, for instance, can be provided via a global positioning satellite (GPS) and doesn’t need a local studio or a reporter on the ground. It called for the input measures to be replaced by regulations which were ‘output-based’, that is to say more focused on consumer needs with content that was relevant and engaging for local listeners. The Myers Report contained a similar

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180 Ev 212

181 Ev 213

182 Ev 212

183 Ev 178

184 *Ibid.*

185 John Myers, *Independent Review of Radio Services and the Existing Localness Legislation*, April 2009, [culture.gov.uk](http://culture.gov.uk)

186 Ev 218

187 Q 23

188 Ev 216

189 *Ibid.*

recommendation, and the *Digital Britain* final report made a commitment to “work with Ofcom to agree a two-year pilot of a new output focused regulatory regime.”<sup>190</sup> RadioCentre had hoped that the new regulations would provide sufficient flexibility so as to merge or co-locate stations in order to achieve economies of scale. While accepting the benefits this would bring, the *Digital Britain* report reasserted the Government’s view that “local radio should be locally-made.”<sup>191</sup>

177. Alongside its review of the media ownership rules, Ofcom published a separate consultation on 31 July 2009 on its proposals for the future of ‘localness’ regulation. Subsequently Ofcom produced a report to the Secretary of State, in November 2009, recommending changes to the media ownership rules. Ofcom proposes a three tier structure:

- i. To allow some regional stations to share all of their programming in return for providing a version of that station on a national DAB multiplex. [Ofcom believes that this would effectively allow for the creation of new national stations with significant scale and reach.]
- ii. To allow local stations to co-locate with other stations within newly defined areas, so helping them to save costs. Stations could also request to share their local programming within these areas and they could ask to reduce their hours of local programming in return for an increased commitment to local news throughout daytime.
- iii. To continue to support the development of community radio, while in the longer term any digital upgrade would allow the creation of a new tier of hyper-local stations.<sup>192</sup>

178. Ofcom stated that these proposals “are broadly deregulatory, and are aimed at sustaining delivery of local content, increasing choice and diversity of radio services, and ensuring an economically robust commercial sector. Subject to this consultation, we could implement our new regulatory framework quickly if and when new legislation is passed.”<sup>193</sup>

**179. We support Ofcom’s proposals for deregulation, and support the notion that the localness of local radio is ultimately marked by its output. Local commercial radio stations should be able to co-locate if it is in the interests of cost efficiency and preserving a service to those local areas.**

### *How local should local radio be?*

180. As part of our recent inquiry on BBC commercial operations Andrew Harrison, chief Executive of RadioCentre, gave evidence to us in November 2008, when he said that “the commercial radio sector is a very small sector, quite a fragile part of the UK media landscape.”<sup>194</sup> RadioCentre’s evidence to this inquiry acknowledged that the challenge

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<sup>190</sup> *Digital Britain, final report*

<sup>191</sup> *Ibid.*

<sup>192</sup> “Keeping local media vibrant”, Ofcom press release, 31 July 2009

<sup>193</sup> Ofcom, *Radio: the implications of Digital Britain for localness regulation*, July 2009, p 1

<sup>194</sup> Culture Media and Sport Committee, *BBC commercial operations*

facing local commercial stations had been compounded “by a growth in the number of local licences leading to an over-supply in the market”<sup>195</sup> and that the growth in the number of licences overseen by the three regulators (the Independent Broadcasting Authority, the Radio Authority and Ofcom) had outstripped growth in audience and revenues.<sup>196</sup> This begs the question whether the number of stations is, in fact, unsustainably high, and whether the weakest should simply be allowed to close.

181. The Myers Report stated that over 60% of commercial radio stations serving an area of less than 250,000 were on the borderline of profitability,<sup>197</sup> and research conducted by RadioCentre as part of the *Digital Britain* review found that half of all commercial radio stations were loss-making.<sup>198</sup> Andrew Harrison also told us:

I think there is no doubt that the truth is that the radio sector’s share of advertising revenue grew from around 2% at the start of the 1990s through to about 6% through the end of the 1990s. That was partly as a result of new programming, partly as a result of new stations, and so on. Nevertheless, given that the size of the advertising cake for commercial radio is about the same as it was in 2000, the reality is that we are now spreading our revenues across a very broad station base.<sup>199</sup>

182. Given that the radio industry has itself acknowledged that there could be an unsustainably high number of local radio stations, we were interested in finding out what level of locality, in terms of population and area coverage, would be appropriate in order to have a sustainable local radio network. Mr Harrison argued that there should be “three-tiers” of commercial radio: large national stations on digital, large regional/metropolitan stations also on digital, and smaller local radio stations on FM,<sup>200</sup> as opposed to “the current uncertainty and regulatory burden where there is an enormous number of stations fighting for a smaller slice of the advertising pie.”<sup>201</sup>

183. Ofcom acknowledged to us that there was a balance to be struck with the regulation of smaller commercial radio stations:

The central challenge for policy and regulation is to meet the public’s demand for the local radio content they value, in a way which takes account of the financial realities faced by operators – so that regulation does not threaten the provision of the very thing it is designed to protect, localness – while at the same time creating an industry structure that couldn’t a digital future.<sup>202</sup>

184. The Myers Report also recommended the introduction of a ‘Local Impact Test’ for local community radio stations with a coverage area of less than 700,000 adults, which would provide evidence of local consumers’ satisfaction with the content provided by their

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195 Ev 212

196 Ev 214

197 John Myers, *Independent Review of Radio Services and the Existing Localness Legislation*, p 33

198 Ev 215

199 Q 260

200 Q 261

201 *Ibid.*

202 Ev 180

local radio station. This should be followed by a relaxation in the rules governing the location and broadcast hours for those stations with coverage of less than 700,000 people and who had met the Local Impact Test.<sup>203</sup> This idea was also suggested to the Government by Ofcom as part of their report *Building on the Myers Review* of May 2009.<sup>204</sup>

### *Community radio*

185. Between 1994 and 2003, the Radio Authority licensed 16 new regional stations which were intended to broadcast niche formats (such as dance music, speech or a mixture of music and speech) on a scale sufficiently large to make their businesses commercially viable.<sup>205</sup> It was hoped that these stations would attract new audiences to commercial radio, thus growing the sector's profitability. When Ofcom took over the responsibility for licensing commercial radio in 2004, it continued the development policies of the Radio Authority offering further, new, small-scale and regional licences to extend consumer choice.

186. Additionally, Ofcom started licensing a new tier of 'community' radio stations, a new type of local station that is essentially not-for-profit and staffed by volunteers. These stations are not considered 'commercial', though some sell advertising airtime, as their motivation is to serve members of their communities and to deliver social gain rather than to generate profits. Since 2005 Ofcom has issued over 200 community radio licences with 135 stations already on air.<sup>206</sup>

187. It is still too early to assess how the new tier of community radio stations will co-exist with larger local commercial radio stations. As Andrew Harrison told us:

The reality is there are two tensions that are yet to play out. One is that there are an awful lot of community radio stations that have been licensed but are not yet actually operational, so we wait to see whether there will be an impact cumulatively over time. However, amongst the community radio stations that have been licensed, perhaps understandably from that sector, there is already pressure on relaxation in terms of how they are funded. Of course our concern would be that if you end up with effectively another sub-tier of commercial radio, which would be advertiser-funded community radio, alongside advertiser-funded commercial radio, you will inevitably get a squeeze. To be fair, that has not happened quite yet but it is certainly something on which we are keeping a watching brief.<sup>207</sup>

188. The hyper-local content of community radio stations can offer a more focused service for specific audiences such as minority ethnic groups, young people and religious groups, which is also an area of local content that is thriving online, as we discuss in paragraphs 185 to 190. Ofcom has actively encouraged the licensing of community radio as a platform for hyper-local content and gave us the following reasons for doing so:

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203 John Myers, *Independent Review of Radio Services and the Existing Localness Legislation*, p 15

204 Ofcom, *Building on the Myers Review*, May 2009

205 John Myers, *Independent Review of Radio Services and the Existing Localness Legislation*, p 21

206 Ev 181

207 Q 265

Firstly, constraints on the availability of spectrum in many places means that broadcast power outputs need to be relatively low, limiting the potential size of area served by the station.

Secondly, the nature of community radio, ie that it is run by members of the community which it seeks to serve, lends relevancy, and local knowledge to output. Finally, Ofcom's regulation of Community Radio has a role to play in supporting the potential for "ultra-local" media by supporting stations in following their key commitments, which through detailing both output requirements, and other station commitments around training, for example, helps to ensure that these stations deliver social gain to their immediate communities.<sup>208</sup>

**189. Striking the right level of localness in the local commercial radio sector is the key to its sustainability. In order to survive, commercial radio stations need to profit from their advertising revenue which will be spread too thinly if there are too many stations in an area or region. The local content of commercial radio is one of its most important attributes. It is worrying that so many smaller stations are currently operating at a loss, although the evidence we have heard suggests that this is in part because of an unsustainable expansion in the industry. Radio stations with coverage of less than 250,000 people are in a precarious position at the moment and we are concerned that this could result in a deficit of local content on the radio.**

**190. However, the radio platform lends itself to providing hyper-local content in the form of community radio, and this is to be encouraged. The growing number of community radio stations are providing a valuable service that often caters to a specific demographic. We welcome Ofcom's encouragement of hyper-local content on radio and we believe that this will eventually become an important tier of local media.**

## Local radio ownership rules

191. In the *Digital Britain* final report, the Government asked Ofcom to consider the impact of the current local ownership rules on the long term sustainability of local media. In November 2009 Ofcom published a report to the Secretary of State recommending:

- Removing the rules around local radio service and multiplex ownership and national multiplex ownership. For local services, this means that all local commercial radio stations could be owned by one operator in a local area, alongside the BBC local radio services; and
- Liberalising the local cross media ownership rules so that the only restriction is on ownership of all three of: a local radio station; local newspapers (with 50% or more of the local market share); and a regional Channel 3 licence.<sup>209</sup>

192. Andrew Harrison told us why RadioCentre thought these changes would be beneficial to local commercial stations:

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<sup>208</sup> Ev 181

<sup>209</sup> Ofcom, *Media ownership rules review*, July 2009

As we compete more and more with deregulated media competitors, and the BBC locally has the ability to cross-promote across television and radio and on-line, it is more and more important in the current environment that we have the opportunity to partner, to merge or join with other media where that is appropriate. Do I think there will be a real rush to do that? In the current economic environment, probably not, but over time, having that flexibility to operate rather than it being constrained by primary legislation would be an important step forward for the sector and ultimately I would hope would be one of the possible triggers for extra investment into the sector.<sup>210</sup>

193. These proposals have been taken forward by the Government and are contained in provisions of the Digital Economy Bill which is currently going through Parliament.<sup>211</sup>

**194. It is important that ownership regulation reflects the modern media landscape. We therefore support Ofcom's proposed changes to local ownership rules, and the provisions in the Digital Economy Bill that will take forward changes to the ownership rules for commercial radio. It is in the interests of plurality, and therefore the consumer that local commercial radio stations should have the ability to merge with other media ventures and utilise other platforms.**

### Local radio news programming

195. The future of local radio news, and the means by which quality local journalism may be funded, were both explicitly included in our terms of reference for this inquiry. As with local news on television, producing news is one of the most expensive services for commercial radio stations. Given the current decline in advertising revenues and structural changes affecting the industry, news services have been subject to economic pressures. Steve Fountain, Head of Radio at KM (Kent Messenger) Group described the news production at the seven local radio stations in the KM Group which enabled the Group still to afford to produce local content:

Our news requirement comes from a news hub. We simply would not be able to afford to run seven local news services, so we have a team of journalists running out of one hub that supplies news to our seven radio stations. Geographically we are unique; all of our seven radio stations are in east and west Kent, so everything is in the same county. Frankly, if a big story breaks in one part of the county, it is just as important in another part of the county quite often. We are able just to run the one news service on which we run 12 local bulletins a day Monday to Friday and then six on Saturdays and Sundays. We have not suffered, as far as we can tell, looking at our audience numbers, from going down that path.<sup>212</sup>

196. However in contrast to the flight of the advertisers, and the subsequent downturn in revenues, RadioCentre argued to us that overall consumer behaviour towards radio had changed positively. Radio recently recorded its highest ever reach: 90% of the UK

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210 Q 288

211 Digital Economy Bill, cl. 37

212 Q 271

population listened to the medium every week in the first quarter of 2009.<sup>213</sup> Indeed, RadioCentre stressed that “radio’s ability to connect and communicate with local audiences in a convenient and complementary way will enable it to thrive in the digital age.”<sup>214</sup> However, during our meeting with Real Radio Yorkshire in Leeds we were told that there had been an “erosion of quality” of commercial radio stations. Real Radio Yorkshire claimed it had bucked this trend, investing particularly heavily in its news and current affairs programming.

197. RadioCentre argued that “commercial radio delivers high levels of local news and information across its local stations and therefore the industry’s very existence makes an important contribution to plurality at a local level.”<sup>215</sup> An audit of the commercial radio industry carried out in 2008 found that, on average, each station broadcasted:

- 22 news bulletins every day, each of which lasts on average three minutes. Almost 70% of these news bulletins contain local news;
- 17 weather and 12 travel bulletins each day;
- Five ‘What’s on’ bulletins every day. The average duration of a bulletin is just over a minute, a 33% increase on 2004;
- 25 charity bulletins every week; and
- promotes nearly 28 different community events and organisations every week.<sup>216</sup>

198. Local radio stations, like local newspapers, are often the training ground for new journalists who could end up working in national or international media. Steve Fountain told us he saw it as part of the role of his radio stations to “bring new talent into the industry.”<sup>217</sup> As we discussed earlier in this Report, in paragraph 14, these journalists make up the base of the ‘news pyramid’ where news stories originate at local level and often become part of the national news agenda, although in the case of radio it must be acknowledged that a large percentage of the this bottom layer of the radio pyramid is made up of journalists on local BBC radio stations.

199. As we noted earlier, in paragraph 121, there is no specific requirement in the Digital Economy Bill for IFNCs to include local commercial radio. However the DCMS Minister, Siôn Simon, told us that IFNC bids that did contain local radio would be considered the stronger bids.<sup>218</sup>

**200. It is undeniable that local commercial radio is a very important source of local news for a lot of people. As with local newspapers, local radio news, on both the BBC and commercial stations, is a training ground for new journalistic talent and provides news content that often becomes part of the national news agenda. The current**

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<sup>213</sup> Radio Joint Audience Research (Rajar), *Data Release First Quarter 2009*, rajar.co.uk

<sup>214</sup> Ev 212

<sup>215</sup> Ev 217

<sup>216</sup> RadioCentre, *Action Stations: The Output and Impact of Commercial Radio*, April 2008

<sup>217</sup> Q 272

<sup>218</sup> Q 626

**economic pressures affecting local radio are making the provision of local news quite challenging for local radio stations and urgent deregulation of the ownership rules must be implemented.**

### **Digital Britain and radio upgrade**

201. The *Digital Britain* Review, led by the former Minister for Communications, Technology and Broadcasting, Lord Carter of Barnes, was concluded in June with the publication of its final report.<sup>219</sup> The full range of actions relating to digital radio covered from the Final Report is detailed in the *Digital Britain Implementation Plan*, published in August 2009. The major initiatives with respect to radio surrounded the decision on the process for the upgrade to digital radio, as well as changes to media ownership rules and local radio regulation contained in the Digital Economy Bill, as discussed earlier in this chapter.

202. *Digital Britain* announced that a Digital Radio Upgrade would be implemented on a single date, which would be announced at least two years in advance. On the determined date all services carried on the national and local DAB (digital audio broadcasting) multiplexes would cease broadcasting on analogue. At the same time, a new tier of hyper-local radio, consisting of small local commercial stations and community stations, would occupy the vacated FM spectrum. Radio services on MW will either upgrade to DAB or, if they were within the hyper-local tier, to FM.

203. The report stated that it “is our intention that the criteria should be met by the end of 2013,”<sup>220</sup> meaning that the upgrade would be delivered by the end of 2015. However the upgrade would not take place until two migration criteria had been met:

- When 50% of listening is to digital; and
- When national DAB coverage is comparable to FM coverage, and local DAB reaches 90% of the population and all major roads.<sup>221</sup>

204. This was welcomed by some of the radio industry. Andrew Harrison of RadioCentre told us that: “We are encouraged that *Digital Britain* sets out a clear pathway for our industry’s future. We look forward to working with stakeholders and the government to translate this policy into legislation as quickly as possible, so that the industry can implement this plan.”<sup>222</sup>

205. However, the digital switchover proposals have been heavily criticised by UTV Media, UKRD Group and The Local Radio Company (TLRC) who collectively represent around 12% of all commercial radio in the UK.<sup>223</sup> They argue that the AM/FM switch off is not in the interests of consumers and cite the main reasons why:

- i. The current model works – radio listening is at an all time high;

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<sup>219</sup> *Digital Britain, final report*

<sup>220</sup> *Ibid.*

<sup>221</sup> *Digital Britain, final report*

<sup>222</sup> “RadioCentre welcomes publication of Digital Britain report”, RadioCentre press release, 17 June 2009

<sup>223</sup> Ev 248

- ii. There is limited demand for the diversity of services available on digital and 79% of all radio listening is to traditional AM/FM stations;
- iii. Additional costs to consumers, the car industry and radio stations to upgrade technology;
- iv. Migration of larger stations threatens local radio: The plan to leave smaller local radio stations on FM will consign over 120 stations to an ultra-local tier of radio, making them invisible to DAB listeners and threatening their viability.<sup>224</sup>

206. UTV and TLRC went on to argue that “forcing 120 smaller local commercial radio stations to remain on FM while larger stations move to DAB will result in these stations becoming the poor relations of larger and more prosperous services participating in the digital revolution”<sup>225</sup> and would also put them at a competitive disadvantage with the BBC which has the opportunity to migrate all of its radio stations to digital.<sup>226</sup>

207. There are currently many local radio stations that are simultaneously paying for the cost of analogue and digital transmission.<sup>227</sup> RadioCentre has called for clarity on the digital upgrade so that local stations can plan for their future on a single platform. Andrew Harrison told us that “vast majority” of RadioCentre members highlight dual transmission as the “single biggest cost issue that they face,”<sup>228</sup> meaning the sooner there was clarity about the switchover and the quicker it happened, the better.

208. RadioCentre has also made the case to us for the third, hyper-local, tier of post-switchover radio on FM to include some existing, medium sized, local radio stations alongside hyper-local community radio.<sup>229</sup> This, RadioCentre argued, would be appreciated because many rural and coastal areas in the UK did not have full DAB coverage at the moment, and in some areas the build-out costs would be prohibitively high.<sup>230</sup> Research conducted by UTV regarding the cost of migration to DAB concluded:

The cost of bringing DAB coverage to the same levels as FM is prohibitive: At present, around 18% of listeners to popular stations such as Classic FM could be cut off at switch-off. However, the cost of improving reception to FM standards is estimated to be in the region of £150 million, and neither the BBC nor the larger commercial radio groups have agreed to meet the bill.<sup>231</sup>

**209. The digital switchover should be of great benefit to all levels of local commercial radio. We particularly welcome the development of a new tier of hyper-local community radio that will occupy the FM spectrum to be vacated by larger stations who upgrade to DAB. However we do acknowledge concerns from the industry about**

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224 Ev 248

225 Ev 248

226 *Ibid.*

227 Q 277

228 Q 275

229 *Ibid.*

230 *Ibid.*

231 Ev 248

**local radio stations in rural and/or coastal areas that could struggle to get DAB coverage. We therefore recommend that Ofcom be empowered to make exceptions and that, as and where necessary, the FM spectrum should be shared between commercial and community radio.**

### **BBC partnerships with local radio**

210. While the reach of radio is higher than it has ever been, it is notable that commercial radio's share of listening declined from 49.2% in 1999 to 42.7% in late 2009.<sup>232</sup> RadioCentre reports that "almost all of this transfer of listening has been from local commercial radio to national BBC radio."<sup>233</sup> In 2008–09, the BBC spent £588 million on its national and local radio services, more than the revenue of the entire local commercial radio sector (£560 million).<sup>234</sup> The BBC's radio services include 40 local radio stations in England and six 'nations' radio services including Welsh and Gaelic stations.

211. In response to criticism over the level of licence fee funding for the BBC in light of the challenges facing commercial media, the BBC has been keen to show itself willing to enter into partnerships with commercial media outlets. It is a theme which the BBC stressed in its 2008–09 Annual Report, and in the evidence they gave to us at our BBC annual report session.<sup>235</sup> However, with regard to the written media, David Newell, the Director of the Newspaper Society, told us that the BBC "talk the language of partnership and yet the discussions that they have had with the regional and local newspaper industry have been fairly superficial."<sup>236</sup>

212. With respect to radio, RadioCentre reports that it is developing partnership ideas with the BBC that include the pooling of audio content, sharing infrastructure, technology and expertise, informal talent swaps and hosting joint on-air events. It states that should it wish to pursue these discussions "to a more formal conclusion,"<sup>237</sup> it would be keen to ensure that editorial independence, and hence local plurality, was maintained.

213. The BBC and commercial radio have announced a new partnership which, according to the BBC, is "designed to help secure radio's digital future."<sup>238</sup> The BBC has told us that the partnership "will establish a new forum, the Radio Council, to lead a range of joint initiatives including proposals to develop an online radio player that creates one place for all UK radio to be listened to on the web, and development of a common standard for radio on all devices (mobiles, in-car screens, at-home screens, DAB sets)."<sup>239</sup> The BBC's *Strategy Review*, published in March 2010, also clearly stated that the BBC would not launch any more local radio services in England.<sup>240</sup>

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232 Radio Joint Audience Research (Rajar), *Data release*, October 2009, [rajar.co.uk](http://rajar.co.uk)

233 Ev 213

234 BBC annual report 2008–09

235 Culture, Media and Sport Committee Fifth Report of Session 2009–10, *BBC Annual Report 2008–09*, HC 515

236 Q 130

237 Ev 218

238 Ev 196

239 *Ibid.*

240 BBC Executive, *BBC Strategy Review*, March 2010, p 5

214. Nevertheless, Andrew Harrison appeared cautious about the proposals upon their announcement in April 2009, stating that commercial stations “remain competitors for listeners with the BBC, and RadioCentre will continue to lobby for the commercial and regulatory freedom to compete on level terms.”<sup>241</sup>

**215. We welcome the ongoing discussions that the BBC is having with local commercial radio on the possibilities of forming partnerships. Where a partnership would result in cost efficiencies, or technological advancements then it is to be encouraged. However we are sympathetic to the cautious greeting that the BBC’s partnership proposals received from the local radio industry. The competition the BBC receives from commercial radio at a local level is vital. What is more important than partnerships is plurality and we believe that some of the deregulatory proposals outlined by Ofcom are the key to preserving this.**

### Music licensing on local radio

216. One of the concerns we heard from the local radio industry was the issue of music licences in the workplace. Currently, anyone playing music on a radio in a public place such as a shop, garage or factory needs to buy a licence. Andrew Harrison told us that he thought this was effectively a double taxation that deters people from listening to the radio in their workplace:

We already pay 10% of our revenue to license music. We pay the record labels, the PPL, and we pay the artists and composers, the [Performing Right Society] PRS. We already pay once for that broadcast licence. We think it is incredibly unfair that there is in effect double taxation on the consumers of our product that they are then obliged to pay for having the radio on in the workplace. It would seem a transparent example of iniquitous double taxation. The evidence we are beginning to pick up is that the rather aggressive licensing demands that the collecting bodies like the PRS and the PPL are putting on small shops, offices, hairdressers and factories are beginning to lead to a flurry of people certainly writing to us.<sup>242</sup>

217. Both PRS for Music and PPL, the organisations who represent musicians and collect music licence fees, responded to these criticisms and refuted any allegations that they employ aggressive tactics to recover licence fees.<sup>243</sup> PRS for Music also stated that it had launched a Code of Practice to demonstrate its commitment to good conduct, and had in fact received very few complaints.<sup>244</sup> We were also told heard that out of 820,000 businesses surveyed by PRS for Music less than 600 said they would rather stop listening to the radio than pay for a licence.<sup>245</sup> PRS for Music has introduced new rates for small businesses of four employees or less who can now buy a music licence for less than £1 a week.<sup>246</sup>

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241 “BBC and commercial radio announce partnership plans”, RadioCentre press release, 27 April 2009

242 Ev 56

243 Ev 255

244 Ev 268

245 Ev 271

246 *Ibid.*

**218. We are not convinced by RadioCentre's assertions that music licences for radios in the workplace are either being aggressively collected, or are contributing to a downturn in radio listening. Performing artists have a right to earn from their work and the cost to businesses playing a radio is not unreasonable.**

## 5 Local media online

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219. The biggest change to the local and national media landscape over the past two decades is the emergence of new technology. There is now much more choice for people using media – whether it is audio, video or text – as digital technologies and the internet offer alternatives to traditional media platforms. The impact of the new digital age was summed up by Lord Carter in the introduction of the final *Digital Britain* report:

On 26 August 1768, when Captain James Cook set sail for Australia, it took 2 years and 320 days before he returned to describe what he found there.

Yesterday, on 15 June 2009, 20 hours of new content were posted on YouTube every minute, 494 exabytes of information were transferred seamlessly across the globe, over 2.6 billion mobile minutes were exchanged across Europe, and millions of enquiries were made using a Google algorithm.<sup>247</sup>

220. The digital world is a global one yet the impact it has had on local media is significant. The whole premise of the Government's *Digital Britain* review and subsequent Digital Economy Bill is to make sure the UK media industries and their regulators are equipped to deal with, and can maximise the benefits of, the new digital era.

221. The local media organisations that operate on traditional platforms argue that the increased competition for people's media consumption and advertising revenues, as well as issues such as the exploitation by search engines of the media's content, has effectively caused a crisis in traditional local media. We have also heard evidence that the internet offers a new platform and a degree of localness not available from traditional media, including interactive 'hyper-local' services. Although the recession has affected advertising revenues on the internet, it would appear that the impact was nowhere near as serious as it was for print media.

### The impact of technology on the local media landscape

222. Internet technology is now a regular feature of most domestic, educational and work environments. Recent Ofcom research showed that 77% of the UK adult population owned a home computer and 73% of the population had access to the internet either at home or elsewhere. The same research showed that 70% of UK adults accessed the internet every day, and in the 15–44 age group that figure rises to 78%.<sup>248</sup>

223. In evidence to our inquiry, Ofcom noted that while regional television news viewers and local newspaper readership were skewed towards older age groups, the young were leading the take-up of local media online. Ofcom also suggested that growth in internet use as people's main source of local news had, to some extent, been at the expense of other media, with one-quarter of those accessing local newspaper websites saying that they did so instead of reading the hard copy.<sup>249</sup> Ofcom also reported that the proportion of adults

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<sup>247</sup> *Digital Britain, final report*, p 3

<sup>248</sup> Ofcom, *Technology tracker quarter 4 2009*, December 2009, Ofcom.org.uk

<sup>249</sup> Ev 171

citing television as their main source of local news had remained stable since 2002, at around half of all adults. In contrast, 32% said local newspapers were their main source of local news in 2002, by 2008 this had fallen to 23%.<sup>250</sup>

224. The implications of the changes in consumer behaviour have been noted by Rupert Murdoch, who in a recent interview said:

I can see the day, maybe 20 years away, where you don't actually have paper and ink and printing presses. I think it will take a long time and I think it's a generational thing that is happening. But there's no doubt that younger people are not picking up the traditional newspapers.<sup>251</sup>

225. It is unlikely that in 20 years there will be no hard-copy newspapers, but Rupert Murdoch's point is a pertinent one. It is not just that young people are not reading traditional print newspapers but that there is also increased competition for their readership from non-newspaper internet blogs, wikis and forums as well as a growing number of hyper-local news initiatives that are providing local news and interactive features on community issues.

226. There are large global, media organisations who are also venturing into local media. Google has become a household name for its search engine, but we have heard some criticisms of its news aggregation service, Google News, which newspaper groups claim has exploited local media content and diverted advertising revenue and readers away from local newspapers.

## Google and online advertising

227. Google News is an automated news aggregator provided by Google Inc. launched in 2002, currently providing information from more than 4,500 news sources. In 2006 an archive was added to include articles from the past 100 years, as well as a mobile version of the product. Google News provides, on its front page, a summary of top news stories from various sources, followed by summaries of news stories for various categories (business, entertainment, sport etc); or specific search terms and filters, including your local town, which can be entered. This means that the user can call up a digest of news stories for their local area, with links to the originating source – often the website of a local newspaper.

228. News aggregation, and specifically Google News, has attracted considerable criticism from local media groups. The Chief Executive of Trinity Mirror, Sly Bailey, referred to “the super dominant position of Google and Google News,”<sup>252</sup> and told us that “they [Google] do not spend a penny on any kind of journalism at all and yet they are making money out of our journalism.”<sup>253</sup> Carolyn McCall from Guardian Media Group referred to it as a “no-win”<sup>254</sup> situation, with newspapers unable to remove their content from Google as this would be even more damaging to their businesses.

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250 Ev 171

251 “Predicting the end of paper and ink”, *The Guardian online*, 9 June 2009, guardian.co.uk

252 Q 46

253 *Ibid.*

254 *Ibid.*

229. The notion that Google is profiting from third party content, in which it does not invest, is very much the theme of the criticisms we have heard about Google News. The Newspaper Society told us:

[the industry] has suggested that the Government should urgently explore in consultation with publishers effective ways in which Google and others should be prevented from profiting from third party content, without recompense to, or the consent from, the media companies who generated the material upon which they have built their businesses.<sup>255</sup>

230. The NUJ put forward a similar argument:

The problem is that Google itself doesn't actually produce any content – it just lives off the work of others, and that has to be paid for. However given that there are fewer adverts for content producers to fight over then there is less money to pay creators and so media companies axe journalists, photographers and editors.<sup>256</sup>

231. In response to these criticisms Matt Brittin, Managing Director of Google UK, told us that he refuted any allegations that Google or Google News stole content:

We do not steal content. If you look at Google Search and Google News what you will find is what we call snippets – little line and a link that will take you through to the originator's website. That is accepted as being in line with copyright law worldwide. It is seen in the same way as a newspaper article quoting lines from a book in a book review. That is the kind of use of copyright content that we make, so we absolutely fiercely defend copyright owners' rights and it is wrong to paint us as stealing content.<sup>257</sup>

232. He also stated that he thought Google News could actually assist local newspapers by helping people find local news content online and by directing searchers to local newspaper websites.<sup>258</sup> Mr Brittin described Google as a “virtual newsagent”<sup>259</sup> that could offer online distribution for news content and, he said, unlike actual newsagents Google did not charge news providers for the service.<sup>260</sup>

233. Mr Brittin also highlighted some of Google's innovations that could enhance the online presence of local newspapers. Firstly, the “Ads by Google” service where Google could facilitate targeted advertising for other websites and where most of the revenue goes to the publishers of the original story. Secondly the new “Fast Flip” service, currently being piloted in America, which would allow readers to flick through the pages of an online newspaper to find the content that they wanted to read.<sup>261</sup> Mr Brittin also stressed that although Google web search carried targeted advertising, Google News did not, in fact, carry advertising at all. He told us that news content was not particularly attractive to

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255 Ev 244

256 Ev 160

257 Q 474

258 *Ibid.*

259 *Ibid.*

260 Q 475

261 Q 483

advertisers, because it was often covering tragic or unpleasant events that advertisers did not want to associate their brand with, and also that people searching the web for news were not usually doing so in order to make a purchase:

News queries typically are not queries where advertisers want to appear and do not have a commercial intent behind them, so, as I say, if you are searching for ‘bomb in Baghdad’ it is unlikely that you are looking to make some kind of acquisition in relation to that query and therefore there is no market to cover there.<sup>262</sup>

234. What seemed to add to the frustrations of the local media groups was their claimed inability to get together as news publishers and discuss the collective complaints they had about Google News with Google. This was described to us by Carolyn McCall of Guardian Media Group:

At the moment, because of the competition law, because of collusion, we as publishers cannot sit down in a room together and talk about the issue of aggregators. We cannot sit down and say, ‘What can we do about this? Can we go together to Google?’ We would be in collusion so therefore as individual players we have to think about this or come to select committees like this and say, ‘This is a really big issue.’ We cannot sit in a room, even with lawyers, and do this because it would be deemed anticompetitive.<sup>263</sup>

235. On 1 December 2009, Google announced changes which would allow publishers to set a limit on the number of free articles readers could access through Google News and websites indexed in Google Web Search. This has been reported as “a reaction to concerns in the newspaper industry that Google is using newspaper content unfairly.”<sup>264</sup> These changes mean that users who click on more than five articles in a day may be routed to the payment or registration pages of the originating website. This could solve the problem whereby users clicking on links from Google News are taken straight to news articles, bypassing some sites’ subscription systems. However, there is still concern amongst the industry that users of Google News may not click through to the originating website at all, but instead just read the aggregated ‘snippets’ that appear on the return of the search results.<sup>265</sup>

**236. We acknowledge the concerns local newspaper publishers have about news aggregation. At a time when there are such significant changes in the way that people consume their news, user-friendly mechanisms that offer consumers the ability to scan headlines from, and click through to, a vast range of alternative news sources must appear to be a targeted threat to the traditional media formats.**

**237. We are concerned at local newspaper groups’ claims that they are unable to undertake any collective industry discussions about the issues raised by aggregators without it breaching competition law. We recommend that this apparent restriction be considered by the Office of Fair Trading and that guidance is given, as appropriate, on**

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262 Q 478

263 Q 63

264 “Google to limit free news access”, *BBC News Online*, 2 December 2009, news.bbc.co.uk

265 Q 63

the extent to which such discussions can be held without being deemed anti-competitive.

238. We welcome Google's recent changes to Google News and Google Web Search regarding the number of articles which can be freely accessed on sites requiring subscription or registration. While Google's success in news aggregation has been achieved through innovation rather than aggression and is not in breach of international copyright laws, its changes demonstrate a welcome awareness of the problems faced by local newspapers and other traditional publishers. It seems clear that Google's business is having a significant impact on traditional publishers' economic models and so we welcome new facilities such as Fast Flip and hope Google is sensitive to the need to maintain diverse, pluralistic sources of local news and information.

239. The wider criticism we have heard about Google is the dominance of its position in online web searching and advertising, particularly in light of the growth of advertising revenues in the online world and the level of migration from traditional media. Enders Analysis told us that Google Inc's net profits had increased by over 2,000% since 2003, and that 97% of Google's total revenue comes from advertising.<sup>266</sup>

240. Newspaper publishers are critical of Google's use of targeted advertising on its search engine. As Trinity Mirror told us:

[Google] use a targeted advertising model to poach large and small advertisers from regional newspapers across all of these advertising categories. In the past, only regional newspapers and directories such as Yellow Pages were able to match local advertisers with local audiences: now we compete with Google whose very business model is based on this kind of targeting. Search advertising was estimated by Enders to be worth around £2 billion in 2008, compared to £2.3 billion for regional newspaper advertising, and is expected to grow by 4.5% in 2009.<sup>267</sup>

241. Matt Brittin refuted these allegations, and said that to accuse Google of "poaching" advertisers suggested there was some sort of ownership over them, which was not the case.<sup>268</sup>

242. Local media companies have told us that the strong position of Google, not just over traditional forms of media but also its dominance over other search engines, makes competition very difficult.<sup>269</sup> We asked the OFT whether it was concerned about the strength of Google. John Fingleton, OFT Chief Executive, told us:

We certainly are aware of the size and impact of Google. The complaints that have come to us thus far about Google have been competitor complaints, competitors who are not pleased with the fact that Google makes a better offering to their

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266 Ev 232

267 Ev 233

268 Q 468

269 Q 63

customers. That type of concern in principle is not something that would precipitate an investigation by us.<sup>270</sup>

243. Mr Fingleton also explained that Google operated in a global market and it was unlikely that any competition issues would arise in the UK that were not replicated elsewhere in the world, and that this has not happened.<sup>271</sup> With respect to the specific issue of Google’s online advertising revenue, Mr Fingleton said:

If a significant share of expenditure goes on one company and that company previously inherited that position from state ownership or from some feature of the market that means that consumers cannot switch, we would be concerned. Where a company achieves that position through superior innovation, foresight or better targeting of its customers we would be very wary about intervening.<sup>272</sup>

**244. We agree with the Office of Fair Trading’s assessment of Google’s position in the media landscape: Google has achieved its dominant status from successful innovation and investment in online technologies and services which has provided significant consumer benefits.**

**245. Local newspaper publishers have been very critical of Google, yet their criticisms have, in our view, lacked focus. Newspapers can opt out of Google News and Web Search, and Google has made attempts to work with newspaper publishers by facilitating the advertising for their websites, which we welcome. We recognise that the changes being brought in the online world are creating huge disruption to the traditional business models of local newspapers and other media companies, resulting in both threats and opportunities. Where there are clear problems that can be addressed by public policy changes and regulatory intervention, we can recommend that action be taken. However we have not heard any evidence that suggests this is the case with the complaints from newspaper publishers about Google.**

## The future for local and regional news online

246. Throughout this Report we have described the pressures on local media groups in the digital age. The challenges posed by the growth and development of digital media are possibly the biggest the industry has ever faced. How traditional print media competes with and utilises the internet is going to be the key to its sustainability in the digital age. The growth in the use of the internet at work, home and in education will not be reversed and internet technologies look set to keep innovating with more products becoming available to make access to the internet faster and more portable.

247. As already discussed in paragraph 224, Rupert Murdoch, who owns one of the largest media groups in the world, News Corp, has said that he does not think that newspapers will exist in hardcopy at some point in the future, perhaps in 20 years time.<sup>273</sup> Last year News Corp announced that it would be introducing a “pay-wall” to the online versions of

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270 Q 404

271 *Ibid.*

272 Q 406

273 “Predicting the end of paper and ink”, *The Guardian online*, 9 June 2009, [guardian.co.uk](http://guardian.co.uk)

all of its newspapers, which would require readers to subscribe in order to read the full contents of stories.<sup>274</sup>

248. The introduction of paid content by such a major publisher could be a significant event in terms of the future of local, as well as national, media. Currently, internet users generally expect to navigate their way around the internet and consume information without charge. If pay models were to be proved successful and widely adopted, this could change the economics of the provision of online news content.

249. However, Paul Bradshaw, Professor of Online Journalism at Birmingham City University, said he was sceptical about the success of paid content online. He told us:

If you look at previous experiments with pay-walls, typically traffic to a website will drop between 60 and 90%, so you lose an enormous proportion of your readers. Whether or not you can make that up, you are going to be able sell advertising for more per reader because you know more about those readers because they are more loyal readers and so on, so they are more valuable to advertise to, but if there is enough of them to make up for that and if they paying enough to make up for that – again the evidence suggests that people are not particularly willing to pay for them – then I do not think it is going to work unless they look at the package they are selling.

[...]people never bought news, they bought a newspaper which was a package which had certain functions: it was portable, it was high resolution, it was serendipitous. Online they are not selling any kind of package that I can see and if you look again at successful business models online, it is about selling packages.<sup>275</sup>

250. The creation of new, innovative web models by local newspaper publishers that would attract users and be profitable would require significant investment by local media groups in online technology, and we have heard that advertisers can be reluctant to place their products around news content. However, with the introduction of IFNCs, and potentially more pay-walls being put up by global and national companies, there could be options for local newspaper publishers to become profitable multi-platform operators. The Press Association has however drawn our attention to the impact of structural change on journalism, and the need for “major re-skilling of regional and local print journalists to give them the skills to operate in multi-platform businesses”<sup>276</sup> which would create additional costs.

**251. The benefits of online technologies for consumers are considerable, and the appeal of the internet for advertisers is only likely to increase. The competition for readers and advertising revenues on the internet is fierce given the lower costs of entry into the online world, compared with entry into print media.**

**252. However there are encouraging developments that could help local news publishers to become multi-platform news providers. IFNCs could offer a shared skill and resource base that would help local newspapers make the transition to becoming**

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274 “Rupert Murdoch Before the Federal Trade Commission’s Workshop: From Town Crier to Bloggers: How Will Journalism Survive the Internet Age?”, News Corp press release, 1 December 2009

275 Q 508

276 Ev 243

**online publishers as well as print publishers. We also note that some publishers are experimenting with different business models for the provision of online content.**

### *Hyper-local websites and blogs*

253. In recent years there has been a growth in the number of hyper-local websites and blogs dedicated to local and community issues that are often interactive, in some way, with their audience. The relatively small start-up and maintenance costs of web-based projects such as hyper-local websites and blogs, as opposed to the heavy costs of print and distribution, mean that there is a smaller risk in setting them up, but also a smaller financial return. The use of volunteers and ‘crowd-sourcing’ (where a question is put to the readership who can then all offer contributions to the answer), also means that content itself can be produced quite cheaply.

254. Paul Bradshaw described to us how these initiatives have been established in the local media landscape:

Already you are getting a very significant, what you might call, hyper-local movement of publishers who are passionate about their local area and particularly frustrated by the lack of coverage that they do get in the local press because the local press has got such an enormous patch to cover and, if you like, a commodified approach to news, but they are trying to plug the gaps they see local newspapers leaving behind them as they cut costs.<sup>277</sup>

255. Mr Bradshaw went on to say that there was also scope for hyper-local websites to cover local democracy and the “bread and butter”<sup>278</sup> material traditionally covered by local newspapers, as newspapers have increasingly found this coverage expensive and “not particularly editorially attractive”<sup>279</sup> whereas a hyper-local website would have fewer costs and overheads and could explicitly seek to cover local activities.

256. There are, however, issues about the quality and the regulation of the hyper-local movement. Claire Enders told us she did not believe that bloggers could ever take the place of traditional journalism:

It is not really possible to replace professional journalism which has been honed and trained. The people who work in the press are highly trained individuals; otherwise they would not still be there. You have to be able to do stories very quickly, you have to have an inquiring mind. [...] We are a very literate nation, so it is a calling that has attracted many very fine people. Those people may well, as indeed they already do, engage in blogging but they are going to have to make a living during the day, whatever it is ie washing cars or whatever – and they will not be able to spend the time or be paid to spend the time to investigate local politics, or local issues which are of extraordinary interest.<sup>280</sup>

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277 Q 500

278 Q 502

279 *Ibid.*

280 Q 12

257. In response to these concerns about the editorial control of blogs, Paul Bradshaw told us that in fact hyper-local bloggers could offer a level of transparency that you did not get with traditional journalism, as well as an interactivity with the readership which can act as a quality control:

For the hyper-local publishers, bloggers, one key element of quality is transparency. If you report on a council meeting, then you link to the full minutes, you put all of that in its full form. It is interesting because I have been looking at a lot of council coverage in local newspapers and it is very much second and third-hand, you are getting very small quotes and it is not clear if that is from a press release, directly from a phone call or the meeting. A blogger would link to as much as possible and would link to the full transcript. The other, if you like, quality mark is right of reply. One of the cultures of blogging is around providing an opportunity for people to put their points of view across, correct things and update things whereas in print once a deadline has passed, that is it, you forget about it.<sup>281</sup>

258. If hyper-local websites become more widespread there is the question of who should regulate their content. Ofcom has told us it does not think that it should regulate blogs.<sup>282</sup> The Chairman of the Press Complaints Commission, Baroness Buscombe, has also said that any regulation of bloggers should not be statutory and should be done by consent.<sup>283</sup> Bloggers can currently join the PCC voluntarily, although there is a subscription cost which is calculated by circulation, which in terms of blogs is problematic to calculate and potentially prohibitively high.<sup>284</sup> This falls into a wider debate about the regulation of online content, and is not the focus of our current inquiry, but it does indicate a potential scrutiny gap.

259. There is also the question of whether such services can be economically viable. As we have discussed, hyper-local sites and blogs are relatively low cost to run, but revenues and profitability are potentially lower. We asked Paul Bradshaw if he thought there was an economically sustainable model for hyper-local news and he told us there were a number of models that offer viability for these types of website:

One of those is a franchise model, strangely. There is an organisation called 'AboutMyArea' which effectively sells the ability to report on a particular postcode and that is their business model. I am not sure how long-term sustainable that is, but that is one model. Another model is consultancy effectively and that seems to be the model of Talk About Local, a network of hyperlocal blogs [...]. The blog itself might not make any money, but the people who are operating those sell their services elsewhere and effectively that blog demonstrates their abilities. Then the third model is the traditional advertising model and the key thing here is, as Ed Roussel himself from The Telegraph put it very succinctly a couple of weeks ago when I was down: 'Print publishing and broadcast publishing have high costs of entry and high margins; online publishing has low costs of entry and quite often low margins',

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281 Q 503

282 Q 385

283 "Baroness Buscombe speech to the annual conference of the Society of Editors", Press Complaints Commission news release, 15 November 2009

284 Q 509

unless you are someone like Google. For those bloggers the margins they can get are fine, they are sustainable and they can live on advertising, for example.<sup>285</sup>

260. He also said that he hoped that local newspapers would engage with these hyper-local start-ups, thereby improving investigative journalism.<sup>286</sup> He argued that if local newspapers left the bigger stories to news agencies and the BBC, they could focus solely on local investigative journalism in conjunction with hyper-local websites.<sup>287</sup>

**261. Hyper-local blogs and websites can offer a valuable service to local communities. Their greatest qualities are their interactivity with their readership and the exchange of local information and discussion that they facilitate. At a time when some local newspapers are struggling to survive, some local blogs are beginning to fill the gaps that a receding local press is leaving behind. Hyper-local websites can potentially also be good for maintaining local identity and can provide healthy scrutiny and discussion of local democracy and local issues, which is to be encouraged.**

262. Local newspapers can learn from many of these innovative websites, and in some cases there is an argument that local newspapers should be working alongside them. However this is not to say that local newspapers are no longer relevant. There is still, and will always be, a need for local professional journalism. Local newspapers will retain a role and a relevance particularly for the segments of society that do not, or cannot, use the internet.

263. We endorse the sentiment that it is local journalism, rather than local newspapers, that needs saving. The two are far from mutually exclusive, but newspapers need to be innovative in the way they train their journalists to work in a multi-platform world.

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285 Q 505

286 Q 506

287 Ibid.

# Conclusions and recommendations

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## Regional and local newspapers

1. We welcome the BBC's proposals to increase the number of external links on their websites. We recommend that every local BBC website should link to the local newspaper websites for that area. (Paragraph 37)
2. The long term impact of the recent loss of advertising income streams on local newspapers remains to be seen. The economic downturn shows signs of recovery, and this should manifest itself in some recovery of advertising revenues for local newspapers. However the adverse impact that the growth and popularity of the internet has had on newspaper purchasing and advertising does not look set to reverse. There is a significant generational shift in reading habits, and the internet is fostering a younger generation of electronic news consumers on which newspapers need to capitalise. (Paragraph 40)
3. Local newspapers have recently suffered from an unprecedented downturn in revenues. Some local newspaper publishers have profited from diversifying their online presence with advertising websites such as Jobsite and Fish4, however, the industry is still in a precarious position. The state subsidy of national and local newspapers, as has been seen recently in France, is not the solution. Newspapers should remain independent of state funding and control and attempt to profit from diversifying their online presence as best as they can. (Paragraph 41)
4. The evidence we have heard from local media groups about the need to modify the merger regime and cross-media ownership rules is persuasive. We welcome the recommendations made by Ofcom in their report to the Secretary of State on media cross-ownership rules, and urge the Government to implement them. However we believe more far-reaching reform is needed. In order for local newspapers to survive in a changing economic and technological world, they need to be regarded as competitors in a multi-media landscape. Despite the evidence given by the Office of Fair Trading, we believe that the current media merger regime does not fully reflect this. We recommend that the Government re-examine the arrangement by carrying out a consultation on a possible multi-media merger regime. (Paragraph 57)
5. There is a real problem with local authority newspapers and magazines that needs to be addressed. While it is clear that most of these publications, such as Portsmouth City Council's Flagship, are legitimate communications from a council to its citizens, this cannot be said for all local authority publications. Publications such as Hammersmith and Fulham Borough Council's H&F News effectively pose as, and compete with, local commercial newspapers and are misleading to the public. It is unacceptable that a local authority can set up a newspaper in direct competition to the local commercial newspaper in this way. Nor should any council publication be a vehicle for political propaganda. (Paragraph 73)
6. The current DCLG guidance in this area is currently being breached. The DCLG should set up a system to monitor this situation closely. However we believe these

guidelines, even if adhered to, do not go far enough. There should be specific, detailed guidance for local authority newspapers and magazines which should state that it be mandatory that all publications of this type make clear, not only on the front page but throughout the publication, that they are a local authority publication. (Paragraph 74)

7. The Audit Commission's review of council publications did not examine the impact that council newspapers are having on commercial local newspapers. We agree with the Audit Commission that it is not their role to do so. We recommend that the Office of Fair Trading should conduct a review specifically on the impact of council publications on commercial local newspapers. (Paragraph 75)
8. The importance of reporting on local institutions and local democracy cannot be overstated; without it there is little democratic accountability. This reporting must be independent and good quality in order to inform the public and maintain their confidence. (Paragraph 87)
9. Therefore we welcome the Press Association's proposals for public service reporting and the launch of their pilot project. This model could alleviate some of the pressure on local newspapers and could well be a solution to the gap that has emerged as local papers are increasingly too under-resourced to report on the daily activities in courts and local authorities. (Paragraph 88)
10. Despite the bleak reports we have heard about the future for local newspapers, we believe they will still be relevant for some time to come, not least because there is still a population of newspaper readers as well as digital 'have-nots'. However, to survive local newspapers need to innovate and invest in new technologies. Now more than ever people are turning to the internet and digital media for their news, providing an opportunity to for local newspapers to capitalise on their positions as longstanding local content providers. (Paragraph 89)
11. For a long time local newspapers have made relatively little change to their business models. Now, along with the other traditional media platforms of television and radio, they face a vast array of digital and internet services, providing relatively easy market entry, all vying for advertising revenue and readerships. While some economic factors are cyclical, other changes of a structural nature are likely to be permanent. As is clear from the evidence we have heard from local newspapers themselves, local newspapers must innovate and re-evaluate the traditional model of local print media in order to survive in the new digital era. (Paragraph 90)
12. It is anachronistic to distinguish between broadcast and non-broadcast journalism. There is a convergence towards multi-platform news journalism and therefore access to video footage of national events, which often have a local or regional angle, should not be exclusive to broadcasters. The BBC, ITN and Sky are all able to use the broadcast pool content online as well as on television and it is against the public interest to deny local and regional newspapers this opportunity. (Paragraph 96)
13. There needs to be clarity regarding who has access to footage from, what are currently, single camera assignments. If the members of the broadcast pool are not prepared to make the content available to the Press Association at a reasonable cost,

then the Government should ensure the right of access for the Press Association digital pool reporters alongside the broadcast pool at national events. (Paragraph 97)

### Regional news on television

14. Existing, and potential further, reductions in regional news on channel 3 have serious implications for the maintenance of plurality of regional news on television. We are deeply concerned that ITV is already running into deficit with its PSB obligations for regional news production, and has suggested that, if left unaddressed, ITV may walk away from these. We welcome reports that the new Chairman of ITV may be reconsidering this strategy, but believe that, to support this, the PSB obligations and other regulatory burdens on ITV need to be reduced, if not removed. (Paragraph 114)
15. The situation with regional news on Channel 3 is in danger of reaching a crisis point that could jeopardise the plurality of regional television news. To protect this, a way of ensuring the continuation of a regional news service on Channel 3 needs to be found, offering an additional and alternative service to that provided by the BBC. It is unacceptable for there to be any situation in which the public is reliant on only one provider, the BBC, for regional television news. (Paragraph 135)
16. We therefore welcome the launch of the IFNC pilots. However, given the lack of cross-party support for IFNCs, their future is highly uncertain. (Paragraph 136)
17. It is vital that there is a continuation of a regional news service on Channel 3 until the introduction of IFNCs, and we are concerned that the time lag until IFNCs become fully functioning in 2013 may lead to a worrying deficit. If it is not financially viable for existing Channel 3 licensees to provide this service because the cost of doing so exceeds the value of their licences then other, non-regional, obligations of those licensees should be partially or completely suspended, in order to alleviate the financial burden and to ensure the continuation of regional news by existing Channel 3 licensees. (Paragraph 137)
18. Given the importance, of regional television news, we recommend that the final regulatory provisions for IFNCs make clear the priority that must be accorded to the replacement of the regional television news service within the respective Channel 3 regions, with provision via internet services and other outlets provided on an additional and complementary basis, although we recommend that the IFNC selection panel favour bids that also contain radio provision. (Paragraph 138)
19. We are sceptical about ITV plc's support for IFNCs being contingent on their retaining the advertising in regional news slots as they also argue that there is little revenue to be gained from advertising around news. If the cost of fulfilling regional news vastly exceeds the revenue involved, we can see no reason why this small advertising revenue should not be allowed to help fund replacement for Channel 3 news providers. We recommend Ofcom and the OFT conduct more research on this. (Paragraph 139)
20. The television licence fee is collected in order to fund public service television, which is not confined to the output of the BBC. Plurality of regional news provision is vital

in a democracy, therefore we restate our support for the principle of public funding, and note the Government's existing suggestion that this could be met from that part of the income of the licence fee that is currently allocated to the digital switchover help scheme. (Paragraph 146)

21. Whatever the outcome of the discussions with Ofcom, plurality in local media must be the priority in any future partnerships that are forged between the BBC and other media groups. It would not be acceptable for a single news agenda to become the norm in the UK, whether it is driven by the BBC or anyone else. However the sharing of resources and experience in order to make cost efficiencies should be encouraged. The BBC should not expect extra funding in order to do this. (Paragraph 158)
22. We welcome Sir Michael Lyons' acknowledgement that the BBC has a duty to help other broadcasters although the BBC needs to be clearer about what this means in practice. We also believe that such a duty should be included in the BBC Charter. However we would not support an expansion of public intervention or funding of the BBC in order for it to help other broadcasters. (Paragraph 159)
23. It is unfortunate that the agreement between STV and ITV has deteriorated to the point where it has turned into a legal dispute. This can only be damaging to Channel 3. (Paragraph 167)
24. We regret that ITV did not take up the offer made by Ofcom to arbitrate in these matters. This is now a matter for the courts. Whatever the outcome we hope that it will clarify the network agreement and prevent any legal dispute in the future (Paragraph 168)

### Local radio

25. We support Ofcom's proposals for deregulation, and support the notion that the localness of local radio is ultimately marked by its output. Local commercial radio stations should be able to co-locate if it is in the interests of cost efficiency and preserving a service to those local areas. (Paragraph 179)
26. Striking the right level of localness in the local commercial radio sector is the key to its sustainability. In order to survive, commercial radio stations need to profit from their advertising revenue which will be spread too thinly if there are too many stations in an area or region. The local content of commercial radio is one of its most important attributes. It is worrying that so many smaller stations are currently operating at a loss, although the evidence we have heard suggests that this is in part because of an unsustainable expansion in the industry. Radio stations with coverage of less than 250,000 people are in a precarious position at the moment and we are concerned that this could result in a deficit of local content on the radio. (Paragraph 189)
27. However, the radio platform lends itself to providing hyper-local content in the form of community radio, and this is to be encouraged. The growing number of community radio stations are providing a valuable service that often caters to a specific demographic. We welcome Ofcom's encouragement of hyper-local content

on radio and we believe that this will eventually become an important tier of local media. (Paragraph 190)

28. It is important that ownership regulation reflects the modern media landscape. We therefore support Ofcom's proposed changes to local ownership rules, and the provisions in the Digital Economy Bill that will take forward changes to the ownership rules for commercial radio. It is in the interests of plurality, and therefore the consumer that local commercial radio stations should have the ability to merge with other media ventures and utilise other platforms. (Paragraph 194)
29. It is undeniable that local commercial radio is a very important source of local news for a lot of people. As with local newspapers, local radio news, on both the BBC and commercial stations, is a training ground for new journalistic talent and provides news content that often becomes part of the national news agenda. The current economic pressures affecting local radio are making the provision of local news quite challenging for local radio stations and urgent deregulation of the ownership rules must be implemented. (Paragraph 200)
30. The digital switchover should be of great benefit to all levels of local commercial radio. We particularly welcome the development of a new tier of hyper-local community radio that will occupy the FM spectrum to be vacated by larger stations who upgrade to DAB. However we do acknowledge concerns from the industry about local radio stations in rural and/or coastal areas that could struggle to get DAB coverage. We therefore recommend that Ofcom be empowered to make exceptions and that, as and where necessary, the FM spectrum should be shared between commercial and community radio. (Paragraph 209)
31. We welcome the ongoing discussions that the BBC is having with local commercial radio on the possibilities of forming partnerships. Where a partnership would result in cost efficiencies, or technological advancements then it is to be encouraged. However we are sympathetic to the cautious greeting that the BBC's partnership proposals received from the local radio industry. The competition the BBC receives from commercial radio at a local level is vital. What is more important than partnerships is plurality and we believe that some of the deregulatory proposals outlined by Ofcom are the key to preserving this. (Paragraph 215)
32. We are not convinced by RadioCentre's assertions that music licences for radios in the workplace are either being aggressively collected, or are contributing to a downturn in radio listening. Performing artists have a right to earn from their work and the cost to businesses playing a radio is not unreasonable. (Paragraph 218)

### Local media online

33. We acknowledge the concerns local newspaper publishers have about news aggregation. At a time when there are such significant changes in the way that people consume their news, user-friendly mechanisms that offer consumers the ability to scan headlines from, and click through to, a vast range of alternative news sources must appear to be a targeted threat to the traditional media formats. (Paragraph 236)

34. We are concerned at local newspaper groups' claims that they are unable to undertake any collective industry discussions about the issues raised by aggregators without it breaching competition law. We recommend that this apparent restriction be considered by the Office of Fair Trading and that guidance is given, as appropriate, on the extent to which such discussions can be held without being deemed anti-competitive. (Paragraph 237)
35. We welcome Google's recent changes to Google News and Google Web Search regarding the number of articles which can be freely accessed on sites requiring subscription or registration. While Google's success in news aggregation has been achieved through innovation rather than aggression and is not in breach of international copyright laws, its changes demonstrate a welcome awareness of the problems faced by local newspapers and other traditional publishers. It seems clear that Google's business is having a significant impact on traditional publishers' economic models and so we welcome new facilities such as Fast Flip and hope Google is sensitive to the need to maintain diverse, pluralistic sources of local news and information. (Paragraph 238)
36. We agree with the Office of Fair Trading's assessment of Google's position in the media landscape: Google has achieved its dominant status from successful innovation and investment in online technologies and services which has provided significant consumer benefits. (Paragraph 244)
37. Local newspaper publishers have been very critical of Google, yet their criticisms have, in our view, lacked focus. Newspapers can opt out of Google News and Web Search, and Google has made attempts to work with newspaper publishers by facilitating the advertising for their websites, which we welcome. We recognise that the changes being brought in the online world are creating huge disruption to the traditional business models of local newspapers and other media companies, resulting in both threats and opportunities. Where there are clear problems that can be addressed by public policy changes and regulatory intervention, we can recommend that action be taken. However we have not heard any evidence that suggests this is the case with the complaints from newspaper publishers about Google. (Paragraph 245)
38. The benefits of online technologies for consumers are considerable, and the appeal of the internet for advertisers is only likely to increase. The competition for readers and advertising revenues on the internet is fierce given the lower costs of entry into the online world, compared with entry into print media. (Paragraph 251)
39. However there are encouraging developments that could help local news publishers to become multi-platform news providers. IFNCs could offer a shared skill and resource base that would help local newspapers make the transition to becoming online publishers as well as print publishers. We also note that some publishers are experimenting with different business models for the provision of online content. (Paragraph 252)
40. Hyper-local blogs and websites can offer a valuable service to local communities. Their greatest qualities are their interactivity with their readership and the exchange

of local information and discussion that they facilitate. At a time when some local newspapers are struggling to survive, some local blogs are beginning to fill the gaps that a receding local press is leaving behind. Hyper-local websites can potentially also be good for maintaining local identity and can provide healthy scrutiny and discussion of local democracy and local issues, which is to be encouraged. (Paragraph 261)

41. Local newspapers can learn from many of these innovative websites, and in some cases there is an argument that local newspapers should be working alongside them. However this is not to say that local newspapers are no longer relevant. There is still, and will always be, a need for local professional journalism. Local newspapers will retain a role and a relevance particularly for the segments of society that do not, or cannot, use the internet. (Paragraph 262)
42. We endorse the sentiment that it is local journalism, rather than local newspapers, that needs saving. The two are far from mutually exclusive, but newspapers need to be innovative in the way they train their journalists to work in a multi-platform world. (Paragraph 263)

# Formal Minutes

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**Wednesday 24 March 2010**

Members present:

Mr John Whittingdale, in the Chair

Mr Peter Ainsworth  
Janet Anderson  
Philip Davies

Mr Adrian Sanders  
Mr Tom Watson

Mr Adrian Sanders declared an interest as the host of a regular show on the community radio station *Riviera FM*.

Draft Report (*Future for local and regional media*), proposed by the Chairman, brought up and read.

*Ordered*, That the Chair's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 263 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence previously reported and ordered to be published.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

*Ordered*, That the Chair do make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned to a day and time to be fixed by the Chair.]

## Witnesses

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### Tuesday 16 June 2009

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**Ms Claire Enders**, Founder and Chief Executive, Enders Analysis, and **Mr Christopher Thomson**, Chief Executive, DC Thomson & Co Ev 1

**Ms Sly Bailey**, Chief Executive, Trinity Mirror, **Ms Carolyn McCall**, Chief Executive, Guardian Media Group and **Mr John Fry**, Chief Executive, Johnston Press Ev 11

### Tuesday 7 July 2009

**Mr Tony Watson**, Managing Director, **Mr Jonathan Grun**, Editor and **Mr John Angeli**, Head of Content, Press Association Ev 19

**Mr David Newall**, Director, The Newspaper Society, **Mr Michael Pelosi**, Managing Director, Northcliffe Media, **Ms Geradine Allinson**, Chairman, Kent Messenger Group and **Mr Ed Curran OBE**, Editor-in-Chief, Independent News and Media (Northern Ireland), formerly Editor of Belfast Telegraph Ev 26

### Tuesday 27 October 2009

**Ms Sharon Taylor**, Local Government Association and Stevenage Borough Council, **Councillor Gerald Vernon-Jackson**, Portsmouth City Council, and **Councillor Mark Loveday**, Hammersmith and Fulham Borough Council Ev 37

**Mr Andrew Harrison**, Chief Executive, RadioCentre, **Mr Travis Baxter**, Managing Director, Bauer Radio, and **Mr Steve Fountain**, Head of Radio, KM Group Ev 49

### Tuesday 10 November 2009

**Mr Gordon MacMillan**, Head of News, Scotland, and **Mr Bobby Hain**, Director of Broadcast Services and Regulatory Affairs, STV Ev 59

### Tuesday 24 November 2009

**Mr John Fingleton**, Chief Executive, and **Mr Alastair Mordaunt**, Director of Mergers, Office of Fair Trading, and **Mr Ed Richards**, Chief Executive, and **Mr Stewart Purvis CBE**, Content and Standards Partner, Ofcom. Ev 69

**Mr Mark Byford**, Deputy Director-General, BBC, and **Ms Helen Boaden**, Director, BBC News Ev 80

### Thursday 3 December 2009

**Mr Matt Brittin**, Managing Director, Google UK Ev 87

**Mr Paul Bradshaw**, Senior Lecturer in Online Journalism, Birmingham City University Ev 94

### Tuesday 8 December 2009

**Mr Michael Grade CBE**, Executive Chairman, and **Mr Michael Jermey**, Director of News, Current Affairs and Sport, ITV plc Ev 99

**Mr Sion Simon MP**, Minister for the Creative Industries, and **Mr Keith Smith**, Deputy Director of Media, Department for Culture, Media and Sport Ev 107

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12 Scottish Daily Newspaper Society	Ev 162
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34 PRS for Music	Ev 255; 268
35 PPL	Ev 255
36 Councillor Gerald Vernon-Jackson, Portsmouth City Council	Ev 256
37 Google	Ev 256
38 ITV plc	Ev 259
39 Cumbria's Calling	Ev 277
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## List of unprinted written evidence

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The following written evidence has been reported to the House, but to save printing costs has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives ([www.parliament.uk/archives](http://www.parliament.uk/archives)), and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074; email [archives@parliament.uk](mailto:archives@parliament.uk)). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

1. Philip Harrison
2. Training and Performance Showcase Ltd (TAPs)
3. City of Bradford Metropolitan District Council
4. United for Local Television (ULTV)
5. John Rossetti
6. Dumfries and Galloway Council

## List of Reports from the Committee during the current Parliament

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Fifth Report	BBC Annual Report 2008–09	HC 515
Fourth Report	Future for local and regional media	HC 43-I, II
Third Report	Channel 4 Annual Report	HC 415
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First Report [First Joint Report with the Business and Enterprise Committee]	Pre-appointment hearing with the Chairman-elect of Ofcom, Dr Colette Bowe	HC 119
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Second Report	Analogue Switch-off	HC 650 I, II
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First Special Report	Maritime Heritage and Historic Ships: Replies to the Committee's Fourth Report of Session 2004–05	HC 358