

Michael Grade

Chair

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23 October 2023

By Email

Dear Delyth,

Thank you for your letter of 12 October 2023 and the opportunity to appear before the committee. As I mentioned during the session, I would have preferred to attend in person alongside my colleagues and I hope that can be arranged for the next time.

The responses to your questions are set out below which I hope you find helpful. For ease of reference, I have included each query as a subheading.

### **Impact of the Draft Media Bill on broadcasting in Wales**

Ofcom's powers in respect of the use of Welsh language by commercial radio licence holders are limited. Currently, licensees make commitments on the character of services as part of a competitive licence application process. Ofcom then sets licence obligations, which reflect these commitments.

Changes to commercial radio licensing are a matter of Government policy. DCMS policy to simplify and streamline commercial radio licensing was reflected in the DCMS response to the [Digital Radio and Audio Review](#) and subsequently, in the Media Bill. The [Explanatory Notes](#) which the UK Government published alongside the draft Media Bill include, at paragraph 14, a summary of the proposed changes to the regulation of radio services. We understand that these draft provisions would mean that there would no longer be a statutory function for Ofcom to regulate the character of service of local commercial stations, and it will be up to individual service providers whether they broadcast in Welsh.

It is worth noting that seven out of the nine community radio stations in Wales licensed by Ofcom broadcast content in the Welsh language, one of which, Bro Radio, available to the Vale of Glamorgan and surrounding area is also now available on DAB.

The BBC also provides two Welsh language services, Radio Cymru and Radio Cymru 2. On the latter, we are currently consulting on the impact on competition of

proposals to extend the number of originated Welsh-language hours offered by BBC Radio Cymru 2 so that it becomes a UK Public Service in its own right.<sup>1</sup>

In relation to public service broadcasting television channels, the Media Bill will also introduce new requirements that recognise the importance of regional and minority languages, including Welsh, to the provision of public service broadcasting.

### **Consideration of the rights to the broadcasting of sports**

Ofcom's role in the Listed Events regime is principally to assess applications from broadcasters for consent to broadcast listed events (in circumstances where our consent is required). We determine whether to give our consent by reference to criteria set out in our [Code](#), which focuses on the way in which rights were acquired and can also require us to consider whether there are restrictions placed on a broadcaster in how they make coverage available.

We do not approve the broadcasters' coverage plans nor do we determine which events should be listed, which is a matter for the Secretary of State for Culture, Media and Sport. For this reason, our research thus far has been focused on understanding changes to the rights market rather than the relationship between audiences and certain sports.

In 2022 we commissioned and published a [report from Ampere Analysis](#) looking at trends and dynamics in the sports broadcasting sector. This included a section that looked at trends in audience consumption habits of sport and listed events.

The report linked above provides insights into the trends and changes seen across the sports rights market in recent years, including the changing role of PSBs. PSBs have maintained a steady level of investment in sports in recent years, largely driven by focussed on Listed Events. However, there are a number of challenges facing PSBs that may impact their ability to compete for sports rights.

PSBs are facing budget constraints, whether from a freeze to the licence fee or a downturn in the advertising market, and this is compounded by production cost inflation. Sports rights can be expensive, and these budget constraints may be impacting PSBs' ability to compete for these rights packages. In recent years PSBs have also faced competition from new global media organisations interested in expanding into the sports market, including online and streaming services. PSBs have long faced competition in the sports rights market from Pay TV providers, such

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<sup>1</sup> [Consultation: The BBC's proposals for BBC Radio Cymru 2 - Ofcom](#)

as Sky or BT Sport, so this is not a new challenge but is certainly becoming more acute.

### **Channel 3 licensing and expenditure**

In July 2013 we published our decision to create a separate licence for Wales for the licence period 1 January 2015 to 31 December 2024. At that time, we also published a statement on our review of regional programming quotas across the UK. In relation to Wales, and following consultation, we decided to maintain the existing regional news minutage obligations and the non-news licence obligations. For regional news, we found that the existing quota represented an appropriate balance between providing a sustainable Channel 3 service and meeting the needs of audiences. For non-news programming we noted that the obligations did not prevent the licensee from providing more regional non-news programming if it considered that was necessary and therefore the existing obligations provided an appropriate backstop.

We are currently in the process of renewing the Channel 3 licence for the next licence period (1 January 2025 – 31 December 2034). We are not proposing to amend the existing licence areas, so the Wales licence will be retained with the current set of obligations. As part of the licence renewal process we [reviewed the current licence obligations](#) and found that the current Channel 3 licence obligations are the minimum contributions to PSB that we expect for audiences, and that Channel 3 has a good track record in delivering these obligations.<sup>2</sup>

### **Network news and current affairs**

The quotas for network news and current affairs programming are the same across most of the Channel 3 licences. However, the Borders licence (which covers the England and Scotland sub-regions) has a higher current affairs quota to ensure programming meets the needs of audiences from both sub-regions, and the UK-wide breakfast licence operates on a different basis, during a limited timeslot in the morning.

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<sup>2</sup> [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf)

<b>Channel 3 licence</b>	<b>Network news quota</b>	<b>Network current affairs quota</b>
14 regional and nations licences (incl. <b>Wales</b> and Northern Ireland, provided by ITV, and Central and North Scotland, provided by STV)	<b>365 hours per annum</b>	<b>43 hours (35 hours in peak) per annum</b>
Borders	365 hours (125 hours in peak) per annum	78 hours (35 hours in peak) per annum
Breakfast licence	1 hour per day	1 hour per week

### **Regional news and non-news programming**

The licences covering broadcast in Wales, Scotland and Northern Ireland are subject to the same weekly quota for regional news programming (4 hours). The quota is higher than the same obligation in each of the English regional licences (up to 3 hours and 5 minutes).

The Wales and Scotland licences are subject to the same weekly quota for regional non-news programming (1.5 hours). This is less than the same quota in Northern Ireland (2 hours) and more than the same quota in each of the English regional licences (where the quota varies from 3 to 15 minutes).

The Wales licence has the highest regional current affairs programming weekly quota (47 minutes). This compares to a quote of 33 minutes in each of the Northern Ireland and Scotland licences. There is no such quota in each of the English regional licences.

<b>Channel 3 licence</b>	<b>Regional news</b>	<b>Regional non-news</b>	<b>Regional current affairs</b>
<b>Wales</b>	<b>4 hours</b>	<b>1 hour and 30 minutes</b>	<b>47 minutes</b>
11 English regional licences	Varies from 42 mins – 3 hours and 5 minutes	Varies from 3 – 15 minutes	None
STV (Central and North)	4 hours	1 hour and 30 minutes	33 minutes
Northern Ireland	4 hours	2 hours	33 minutes

Last year, we assessed the commercial sustainability of the Channel 3 licence obligations for all the Channel 3 licensees in our report to the Secretary of State (the report is a statutory part of the renewal process and is otherwise referred to as the ‘section 229 report’). Our assessment found that the current licence obligations could

be commercially sustainable during the next licence period as a whole but could represent a small annual net cost towards the end of the period. We also noted that sustainability of the Channel 3 PSB obligations could come under increasing pressure in some scenarios, especially if the value associated with licence benefits was lower or declined faster than expected.

We also assess ITV's delivery against the programming quotas in our Annual PSB Compliance Report.<sup>3</sup> We have been satisfied with ITV's delivery against the programming quotas in the Wales licence, and it generally tends to deliver against them (and in some cases deliver above minimum requirements). There were some shortfalls on delivery of the regional programming quotas in 2020, due to exceptional disruptions to the broadcast industry related to the pandemic.

“Qualifying spend” refers to the spend considered when calculating broadcasters' compliance with regional production quotas. As per Ofcom's [regional production guidance](#), this relates to production spend for first-run programmes made within the UK, excluding news programmes, self-promotional content, and acquisitions. Qualifying spend for Wales is a subset of this total qualifying spend, comprising spend from those programmes that counted as productions made in Wales. Programmes can count for this by meeting two out of the three criteria as set out in the guidance (i.e. substantive base, production spend, and off-screen talent).

The decrease in the proportion of qualifying hours and spend allocated to Wales by ITV was largely the result of *I'm a Celebrity...Get Me Out of Here* returning to filming in Australia in 2022, following its temporary relocation to Castell Gwrych near Abergele in 2020 and 2021, which qualified it as a regional production in those years. ITV also broadcast two drama series in 2021 which contributed to its proportion of qualifying hours and spend for Wales – *Hollington Drive* and *The Pembrokeshire Murders*. In 2022, there were two titles which qualified as productions made in Wales – documentary series *Wonders of the Border* and factual entertainment title *The Pier*.

Unlike the BBC and Channel 4, the Channel 3 licence does not have either nation-specific quotas or an out of England production quota. As such, under the current licence conditions, ITV can choose to meet its network regional production quota in any nation or region outside the M25.

### **Ofcom capacity in Wales**

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<sup>3</sup> See [“Annual Reports”](#) tab.

The number of colleagues based in Ofcom's Cardiff office has grown in recent years. In addition, to the core Nations team, there are now a wider range of roles based in Cardiff, including colleagues from teams across Ofcom – Network and Communications, Market Research, Strategy and Online Safety. Our commitment to growing the number and diversity of roles is demonstrated by the recent appointment of two new early careers graduates, bringing the total to 19. We have sufficient capacity in our office to grow the size of our Welsh workforce, which we plan to achieve incrementally through a mix of location neutral recruitment, targeted recruitment, and support for relocations.

Thank you once again and please let me know if you have further queries.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Michael Grade". The signature is written in a cursive style with a long horizontal line extending to the left and a large loop at the end.

MICHAEL GRADE  
(Lord Grade of Yarmouth)