



The Communications Market 2007
Nations and Regions
United Kingdom

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Foreword

This is Ofcom's second annual review of telecoms, television and radio markets across the nations and regions of the UK. In it we aim to present the most comprehensive picture possible of trends in these markets, in order to establish the context for policy decisions by Ofcom and other types of decisions by other public and private sector organisations.

Last year's report ¹ concluded that differences in the availability, take-up and consumption of communications services across the UK could be explained by whether an individual lives in a rural or urban location, their age and socio-economic profile and attitudes towards communications technology. It pointed to significant gaps in the availability of communications services in areas with larger rural populations such as Northern Ireland, Wales, Scotland and the South West. Take-up of services was lower in rural areas and in locations with a higher proportion of C2DEs - Wales, Scotland, Yorkshire & the Humber, the North East and Northern Ireland. We also found that age was a key influence on adoption of mobile phones and the internet.

This year's report shows that the gap between 'leaders' and 'laggards' on key indicators has narrowed over the period, with availability and take-up in rural areas closing on urban conurbations. For instance, the gap between the parts of the UK with the lowest and highest internet penetration narrowed from 16 to 13 percentage points. A similar reduction was seen for broadband internet access where the gap fell from 17 to 7 percentage points. Moreover, a 19 percentage point gap in 2005 DTV penetration by nation and region had narrowed to 13 percentage points in 2006. The impact of age also appeared to be less of a differentiating factor in 2006, with increased use in mobile phone use driven by enhanced take-up of mobile telephony among consumers aged over 45.

Following the 2006 report and recognising the importance of the rural/urban divide, stakeholders asked us to commission a programme of research to help improve our understanding of the challenges faced by people living in rural parts of the UK. Research was conducted in early 2007 to examine the take-up of, and demand for, communications services in rural areas of the UK. It confirms last year's findings that take-up of certain communications services (notably digital television, broadband and 3G mobile) is lower in rural areas. However, among those yet to acquire these technologies, only a small minority have been prevented from doing so by lack of availability.

In other areas, this report adopts the approach of the 2006 report, once again drawing on the latest operator data, research findings from Ofcom's communications tracking survey and industry data from BARB and RAJAR. This allows us to provide a comprehensive statistical digest of availability, take-up and consumption of communications services throughout the UK. Wherever possible, these sources have been used to provide the most up-to-date industry metrics. In the case of digital television penetration and broadband take-up, however, this report relies on 2006 *average* figures (because this allows for robust regional analysis), rather than using Ofcom's latest published figures.

Two enhancements have also been introduced this year.

The first involves research on issues specific to individual nations that were identified or highlighted as requiring further investigation in the 2006 report. These issues are:

- inadvertent roaming by mobile users in Northern Ireland on to networks in the Republic of Ireland;

¹ See <http://www.ofcom.org.uk/research/cm/nations/>

- overlap television viewing in Wales, whereby viewers in border areas can only receive (or only choose to watch) television services broadcast from England;
- the availability of communications services in rural Scotland; and
- an in-depth examination of minority ethnic consumer behaviour towards communications services in England.

The second innovation is that the report provides an industry overview for each nation – highlighting, for example, the scale of investment made by the BBC and ITV1 in nations and regions television output and their hours of broadcast output.

The report is divided into five sections:

- **Section 1** summarises the report's main findings;
- **Section 2** offers a comprehensive analysis of communications markets across the UK's four nations starting with, by way of background, a short socio-demographic and economic portrait of the four nations. It goes on to examine recent communications market developments, before summarising the results of the research that has been commissioned for this report. It concludes with a comparative analysis of communications markets in each nation; and
- **Sections 3 to 5** provide in-depth analyses of the television, radio and telecommunications markets across the four nations.

This report forms the first of Ofcom's three 2007 publications examining different aspects of the UK's communications markets. The Communications Market 2007, to be published in the summer, will consider the UK-wide market in depth and The International Communications Market report, to be published around Christmas, will make comparisons between the UK and overseas markets.

We would welcome any comments and feedback that you might have on this report. Please email Ofcom's Market Intelligence Team on market.intelligence@ofcom.org.uk.

Ed Richards
Chief Executive

The information set out in this report does not represent any proposal or conclusion by Ofcom in respect of the current or future definition of markets and/or the assessment of licence applications or significant market power or dominant position for the purposes of the Communications Act 2003, the Competition Act 1998 or other relevant legislation. We endeavour to ensure that the data in this report are the most accurate currently available.

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1.1 Executive summary

1.1.1 Communications services availability

To complement the supply-side analysis of digital communications service availability, presented in 2006 *Nations and Regions Communications Market – United Kingdom*, this year we have examined whether consumers in urban and rural areas across the UK's four nations are aware of whether or not they have access to those communications services and, if they think not, whether they would like to have access.

People in Scotland, Wales, and Northern Ireland's rural areas lag behind those in urban areas in take-up of many communications services.

The survey shows that for some communications services – in particular multichannel TV, broadband and 3G mobile, take-up in rural areas is lower than in urban areas in all of the UK's nations apart from England.

With the exception of England, perceived availability of communications services is lower in rural than in urban areas.

Consistent with lower take-up levels, the research found that people's perceptions of service availability is lower in rural areas of Scotland, Wales and Northern Ireland than in urban areas. In England the survey shows little evidence that rural areas lag behind urban ones in perceived service availability.

Demand for services to be made available is highest in Wales and Northern Ireland.

The survey found that interest in obtaining access to many new communications services was greatest in Wales and Northern Ireland. 3G mobile and digital radio, in particular, attracted interest from between 7% and 11% of people living in rural areas in Wales and 8% and 9% of people living in rural Northern Ireland. Only small minorities (2% or less) expressed an interest in new communications services being made available in Scotland.

1.1.2 Television markets across the UK

Spend on local TV programmes across the UK stood at £326m in 2006

Spend by the BBC and ITV1 on programmes for viewers in England, Scotland, Wales and Northern Ireland stood at £326m in 2006, down by 17% on 2001. In England there were £193m of commissions in News, Current Affairs and 'Other' output; Scotland received £63m, Wales £37m and Northern Ireland £33m.

Programme spend on nations and regions spend highest in Northern Ireland

However, on a per capita basis, programme spend in Northern Ireland was greatest, at £19.10 per head in 2006. Scotland and Wales received £12.50 per head each, while England received £3.80. In all nations except England, the BBC spent more than any other broadcaster on local output.

Adding in network commissions, programme spend highest in England at £40 per head

England is the largest centre of for all programme production with spend at £40 per head of population in 2006; the equivalent figure for Wales was £25, followed by Northern Ireland and Scotland with nearly £23 each.

Cost of commissions highest in Scotland at £34k per hour in 2006

Scotland received the highest spend on nations commissions on cost per hour basis, at £34k in 2006, against £26k for Wales, and £25k each for England and Northern Ireland.

Significant investment in Welsh, Gaelic and Irish language television output in 2006

Viewers in Wales, Scotland and Northern Ireland benefited from output and/or services in languages specific to their nation. S4C, which is available on the fourth analogue channel in Wales (and on digital platforms), spent £65m in 2005 on a broad range of genres for Welsh-speaking viewers; the BBC also supplied 10 hours of Welsh language output funded from the licence fee. The Gaelic Media Service in Scotland had a 2005/06 commissioning fund of nearly £7m in 2005/06 to facilitate the production of Gaelic language output on the BBC and ITV1; it plans (with the BBC) to launch a fully-fledged channel. The Irish Language Broadcast Fund in Northern Ireland has a budget of £12m, spread over four years, to commission Irish language programming.

More regional output is produced for the BBC and ITV1 schedules in Northern Ireland and Scotland than in England and Wales

Northern Ireland schedules emerge as the most regionalised, with 5.5% of all BBC/ITV hours produced specifically for Northern Ireland. Scotland came second with 5.4%, followed by Wales with 5.0%. England ranked fourth with just 3.3% of hours regionalised for English audiences.

People in Northern Ireland were among the lightest consumers of TV in 2006

Viewers in Northern Ireland consumed 3.34 hours of television per day in 2006 – among the lowest in the UK, along with viewers in London. The heaviest viewers were those in the North East of England, at 4.22 hours, closely followed by Scotland with 4.1 hours. Viewers in Wales averaged 3.75 hours per person per day.

Digital television penetration highest in Wales and lowest in Northern Ireland in 2006

Digital television penetration across the UK averaged 75% of individuals in 2006, and was highest in Wales, where 82% had digital television connected to their main set. Penetration was lowest in Northern Ireland (69%), with Scotland at 76%. Overall penetration in England averaged 75% in 2006, but this varied from 69% in London to 79% in the north east of England.

Five main networks' share highest in the South West and lowest in the Border region

The all-homes share of the five terrestrial networks stood at 67% in 2006, down three percentage points on 2005. In the Border and ITV Wales regions the five main channels attracted a collective share of just 59% each, – possibly reflecting higher than average DTV penetration in these areas. Share for the five channels was highest in the South West of England, at 74%, while in Scotland it stood at 78% and in Northern Ireland at 67%.

Local television news most popular in Northern Ireland and least popular in London

Local news bulletins proved most popular in the UTV region, where the early evening bulletins from the BBC and ITV1 attracted the highest aggregate share of audience in the UK (64%). The East of England came second with 59% - both were substantially higher than the network average in 2006 of 48%. Share among London viewers was lowest at 36%, followed by the North East of England at 38%. The equivalent figure for Scotland was 52%, while viewing in Wales of local evening news stood at 51%.

1.1.3 Radio markets across the UK

Choice of local stations per listener highest in England, lowest in Northern Ireland

The listener in England had an average choice of 6.1 local radio stations in 2006, including 5.1 local commercial and one local BBC station, more than in the other three nations. Listeners in Scotland could access on average 5.5 local stations, (3.5 local commercial and two national BBC), followed by Wales with 4.5 (2.5 local commercial two national BBC) and Northern Ireland with 3.1 (2.1 local commercial and one national BBC).

Scotland generates highest level of commercial radio revenue per head

Of the four nations, commercial radio in Scotland generated the highest revenue per head in 2006, at £10, partly a function of the proportionately higher audience share commanded by Scottish commercial radio. English stations' revenues were second highest per capita, at £7.81, while Wales and Northern Ireland were lower, at £6.69 and £6.66 respectively. This may be partly due to the higher popularity of BBC radio services in these nations.

BBC programme spend highest in Scotland at 76p per hour

On a UK-wide basis, the cost per listener hour of BBC national and local radio programming was 32p in 2006. Expenditure was highest in Scotland, where the combined cost of BBC Radio Scotland and BBC Radio nan Gaidheal was 76p per hour. In Wales BBC Radio Wales and Cymru cost an average of 68p, compared to 38p for BBC Radio Ulster and Radio Foyle in Northern Ireland and 25p, the for stations in the English regions.

Local commercial radio most popular in Scotland; BBC local radio most popular in Northern Ireland

There are substantial differences in levels of listening to commercial and BBC stations across the nations and regions. Local commercial radio is most popular in Scotland, where it attracted 43% of audience share in 2006 compared to the UK average of 32%. BBC local radio share in Northern Ireland was the highest of any nation, at 27% relative to the UK average figure of just 11%. Networked BBC radio was most popular in England and in Wales where it attracted 45% and 46% of audience share respectively.

1.1.4 Telecoms markets across the UK

2G and 3G mobile coverage

Almost everyone in the UK lived in a postcode with 95% or more 2G area coverage in Q1 2007, while 91% lived in a postcode with 50% 3G area coverage. This represents an increase of seven percentage points in 3G availability over the year, as 3G network roll-out has extended across the UK.

Overall broadband availability high, but cable and LLU varies

Across the UK almost all premises (100%) were connected to a DSL-enabled local exchange, although a small proportion of these will not be able to receive broadband or may only be able to do so at limited download speeds. Availability of cable broadband was lower, at 46% of households, while 67% of premises were connected to an LLU-enabled local exchange. Availability of all broadband services was higher in urban than in rural areas. Although the availability of cable broadband did not change significantly during 2006, the proportion of households able to receive LLU broadband increased by around 25 percentage points during the year.

Internet and broadband penetration continue to grow

Ofcom research indicates that 61% of UK individuals lived in a household with an internet connection in 2006, an increase from the 57% reported in 2005. Between 2005 and 2006 broadband penetration increased from 35% of households to 45%. These are averages for the year; latest estimates for the end of 2006 show 50% of UK households with a broadband connection. Research among SMEs suggested that over three-quarters (77%) of UK SMEs used the internet.

Average household mobile spend is greater than fixed-line and internet combined

Average claimed monthly spend on fixed-line and internet were £17.75 and £13.43 respectively for UK households taking those services in 2006. Similarly, the average monthly mobile spend among individuals using a mobile phone was £21.09. As there are, on average, two mobile phones per home, household mobile spend is likely to be greater than fixed and internet spend combined in households which take all three services. Average

fixed spend and internet spend among the nations both appeared highest in Wales, while our survey indicated that mobile spend was highest in Northern Ireland.

Almost three out of ten households buy bundled telecoms services

Ofcom research indicates that 29% of households and 26% of SMEs bought more than one telecoms service from a single provider in 2006, with growth stimulated by growing broadband take-up and increasing LLU availability. Bundling was highest among households in Northern Ireland (32%) while SME bundling was highest in Scotland (33%).

Satisfaction levels among consumers high

Ninety-one per cent of mobile users, 90% of people with a home landline and 87% of people with a home internet connection were either 'very' or 'fairly' satisfied with their service in 2006, similar to the corresponding satisfaction levels for 2005. Satisfaction levels were higher among broadband internet users than among those using narrowband.

1.1.5 Key findings from research on specific nations

The 2006 Nations *and Regions Communications Market Report* identified or highlighted issues of concern in the communications markets of the four nations. This year we commissioned research with the intention of gaining a better understanding of these issues, and to help assess their impact and/or scale. The research examined:

- England: ethnic minorities and communications services;
- Scotland: access to communications in rural areas;
- Wales: overlap television viewing; and
- Northern Ireland: inadvertent roaming.

In this section we outline key findings from the research.

1.1.5.1 Ethnic minorities and communications services in England

Slightly lower landline take-up and slightly higher mobile take-up

Adults from minority ethnic groups (MEGs) are moderately less likely to have a landline than the general adult population (86% compared to 89% respectively) and slightly more likely to have a mobile (83% versus 80% respectively).

Ethnic minorities with DTV have a higher proportionate Pay-TV take-up

The MEG population is slightly less likely to have DTV than the overall population (68% compared to 74% respectively), but those that do have DTV are more likely to have pay-television subscriptions (60% compared to 52%). Cable and satellite subscription is highest among the Pakistani and black Caribbean groups.

Ethnic minorities have higher levels of broadband adoption

Although MEG populations have similar internet adopt rates as that of the total UK population (55% versus 52% respectively), they have a higher proportionate take-up of broadband (80% versus 74%) respectively.

1.1.5.2 Access to communications services in rural Scotland

Take-up of key communications services is lower in rural locations

The research found that across urban and rural locations in Scotland, take-up of communications services did not differ substantially. The gap was widest for broadband

(54% take-up in urban locations and 45% in rural areas), 3G mobile (19% and 15% respectively) and digital television (81% and 77%).

Perceived availability of 3G services and digital radio significantly lower in rural areas

Individuals in urban and rural locations had similar perceptions about the availability of 2G services, digital television and broadband access. The widest gaps in perception were for 3G mobile and DAB digital radio. In the case of 3G, 92% of people in urban areas believed they had access compared to 75% in rural areas, while for DAB digital radio, the comparable figures were 82% and 68%.

Lack of availability is a barrier to service use for only a minority

When asked about why they had chosen not to adopt a particular communications service, only a small minority of respondents (less than 2% of the population) cited lack of availability as the main reason.

Fixed-line telephony considered almost as important as electricity

The research asked consumers to rank communications services in order of importance alongside a number of other household services. Fixed-line telephony, was considered the most important of the communications services, almost as important as access to electricity. Mobile telephony, digital television and broadband were generally equally ranked, with DAB digital radio considered to be the least important.

Agreement that rural areas should have equal access to communications services but that urban areas should not subsidise them

There was agreement among both rural and urban inhabitants that people in rural locations should have the same level of access to communications services - but few believed that urban dwellers should subsidise those living in rural areas.

1.1.5.3 Overlap television viewing in Wales

Less than one in ten Welsh homes in the border area now only view channels broadcast from England on their main set

Our survey suggests that 8% of Welsh homes view only channels broadcast from England (and not those broadcast from Wales). If we include homes that *receive* channels broadcast from both Wales and England, but that *watch* mainly channels broadcast from England, the proportion of Welsh households in the border area only, or mostly, viewing programmes from England rises to 15%. This equates to around 74,000 Welsh households that receive all, or most of, their broadcast news and information from England.

The survey's figures for homes receiving England-only channels are consistent with BBC data, which suggest that the proportion of viewing of BBC One from England in Wales fell from 25% in 1998 to 10% in 2006. It is likely that increases in digital satellite and cable take-up in Wales will have had a major impact as these platforms give prominence to Wales' Public Service Broadcasting (PSB) television channels on the EPG.

The main reason for watching and receiving England-broadcast channels is reception

When asked why their main television set is tuned to receive channels from England, around half of all respondents spontaneously mentioned reception and picture quality. Inertia and channel preference were also notable reasons. Three-quarters of those homes receiving only channels from England agreed with the statement that "*Our television's always been tuned this way*", while two-thirds agreed with the statement that "*I prefer Channel 4 to S4C and I want to receive Five*". Additional qualitative research found that England-only viewers are generally not prepared to trade C4 for S4C. The research found that there is low awareness and understanding among England-only households that a choice of signals

exists and, against this backdrop, focus groups revealed that aerial installers may also influence whether a household is tuned in to England in overlap areas.

45% of England-only viewers would consider switching to Wales channels

The main factors that might attract England-only viewers towards Wales channels are local news, information and weather; these were cited (unprompted) by 57% of potential switchers. The main barrier to switching, alongside the reception and aerial issues, appeared to be a poor understanding of what is available on the channels broadcast in Wales, alongside a widespread misconception among England-only viewers that all Wales channels feature Welsh language programmes.

Few are motivated or knowledgeable enough to have an additional aerial installed

Aerial installations were found to be a low interest area and typically a “distress” purchase – having a second aerial installed had not occurred to most people in our focus groups. When prompted about whether they would consider having an additional aerial erected, cost and hassle emerged as potential barriers to doing so.

England-only viewers less likely to feel well-informed about their local area

Nearly eight in ten of those who receive Wales channels said they felt very, or fairly, well-informed about their local area, compared with less than two-thirds of England-only viewers. This was echoed in the focus groups, although some England-only viewers ‘plugged the gap’ by obtaining Welsh news through other media, e.g. listening to Radio Wales or reading The Daily Post.

England-only viewers less likely to be able to name their Welsh Assembly Member and less likely to vote in Assembly elections

While 32% of Wales-only viewers could correctly name their local Assembly Member, only 23% of England-only viewers could do so. Moreover, a higher proportion (33%) of England-only viewers claimed they never voted in Welsh Assembly elections than those receiving Wales programmes (21% of Wales-only viewers and 25% of Wales and England viewers). While there appears to be a correlation between receiving Wales channels and knowledge and involvement in the Welsh political process, this is not necessarily causal.

1.1.5.4 Inadvertent mobile roaming in Northern Ireland

Inadvertent mobile roaming occurs when people making mobile phone calls from border areas of Northern Ireland mistakenly roam on the Republic of Ireland’s mobile networks, thereby incurring roaming charges.

74% of border-area mobile users experienced inadvertent roaming

Most mobile consumers are aware of the problem and those who are aware are spread quite evenly across the whole border area of Northern Ireland. There are an estimated 142,000 border region mobile phone users (aged 10+) and 74% of these users claim to have experienced the problem – 105,000 consumers.

32% experienced the problem daily

Mobile users who had experienced inadvertent roaming were asked where and how frequently they had experienced the problem. 32% claimed to experience the problem daily in at least one area.

48% roamed inadvertently once a week and incurred costs as a result

A diary study was drawn from the survey sample of border region mobile phone users,

comprising mainly those who were already aware of the problem or had experienced it, with 48% or 50k – 68k affected on a weekly basis.²

85% were aware of the problem, but not all knew how to lessen the impact

85% of the sample were aware of the problem, but had varying degrees of knowledge about possible remedies. Many were unaware of special network tariffs and had not either turned their phone to manual, or asked their network to lock it on manual, or obtained Republic of Ireland phone /SIM cards. Only 7% of mobile users in border areas (around 10,000 people) were using a special network tariff that they said would deal with inadvertent roaming.

Many in Derry/Londonderry were affected regularly

In Derry/Londonderry (Northern Ireland's second largest city) 54% of mobile customers had experienced inadvertent roaming in the city and a quarter said they did so every day.

Approximately 10 million instances of inadvertent border roaming occur each year

Estimates derived from the diary study suggested that there were approximately 26,500 cost-incurring calls per day due to inadvertent roaming (nearly 10 million per year).

The annual cost to consumers of inadvertent roaming could be as high as £10.9m

If the average length of a mobile phone call made or received is assumed to last on average two minutes, then the total estimated additional cost to mobile customers in the border area of inadvertent roaming would be around £30,000 each day or £10.9 million per year. This analysis suggests that, on average, the 105,000 mobile customers in the border area affected by this issue incur additional charges of around £100 a year because of inadvertent roaming. (Similarly, if the average call length is one minute the total annual cost would be £5.4 million).

These are likely to be reasonably conservative estimate because they do not include extra costs for SMS messages, or take account of consumers from elsewhere in Northern Ireland, or indeed from elsewhere in the UK, who may also experience inadvertent roaming but with less frequency than those interviewed. Also, the figure does not attempt to measure the 'opportunity cost' of calls that are not made.

² Diary study participants were more likely to be drawn from those with an interest in the topic, so we can assume a range from 50,000 to 68,000. The bottom end of the range assumes that all diary participants were knowledgeable about the problem. The top end assumes that they were equally likely to be knowledgeable as the main study participants.

