The Communications Market 2007
Nations and Regions
Wales

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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[2].

Two enhancements have also been introduced this year.

The first involves reporting on research commissioned by Ofcom on overlap television viewing in Wales, whereby viewers in border areas can only receive (or only choose to watch) television services broadcast from England. The second innovation is that the report provides an industry overview for each nation – highlighting, for example, the scale of

[1] See http://www.ofcom.org.uk/research/cm/
[2] For the latest figures for digital television and broadband homes visit Ofcom's website.

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 .

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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 Recent developments in Wales

The Welsh Authority is consulting on the creation of an S4C Children's channel
In March 2007, Iona Jones, S4C's Chief Executive announced that the Welsh Authority (S4C's regulator) intends to consult on the creation of an S4C Children's channel. The Authority has to obtain the consent of the Secretary of State before the service can launch. A possible outcome could be that S4C ceases to provide coverage of the National Assembly plenary and committee meetings to create the capacity needed for the Children's channel.

BT's 21st Century Network (21CN) launched in Wick in South Wales in November 2006 BT fulfilled its 2004 commitment to commence the roll out its next-generation network in Wales during 2006, with Wick being the first village in the UK to connect to 21CN. This will deliver high bandwidth services of up to 24Mb/s, although many other areas of Wales will have to wait until at least 2009 for a connection to 21CN.

33% of homes connected to an unbundled exchange in 2006, up from 13% in 2005
The 2005 Nations and Regions Audit identified that 15% of homes in Wales were connected to an unbundled exchange (compared to the UK average of 44%); by the end of 2006, that figure had increased by two-thirds with 25% of homes now connected to an unbundled exchange. In the same period, however, the UK-wide figure has risen to 59%, so the Welsh market continues to lag behind the rest of the UK.

94% of exchanges that could not support broadband in 2005 are now upgraded
At the end of 2005, 35 exchanges (8% of the Welsh total) were not capable of supporting broadband services. Following a tender exercise initiated by the Welsh Assembly Government, BT was asked to upgrade those remaining exchanges, with the result that 33 had been converted by September 2006. The remaining two exchanges, in Rhos and Llawhaden, serve just 241 premises between them.

539 WiFi hotspots in Wales – 5.5% of the UK total and 193 per million of the Welsh population (167 in the UK)
BT, The Cloud, T-Mobile and Orange together offered 539 public WiFi hotspots in Wales in 2006, accounting for 5.5% of the UK-wide total of 9833 in the same year. With 193 per million of population, the penetration of hotspots per head exceeded the UK figure of 167 per million.

New South Wales FM Licence awarded to XFM in May 2007
XFM South Wales Limited is a wholly-owned subsidiary of GCap Media plc. The licence is for a service to cover South Wales, which has an adult population (aged 15+) of around 950,000. However, the exact coverage will be determined by the location of the transmission sites and other technical characteristics.

FM licence for Herefordshire and Monmouthshire awarded to Classic Hits Ltd
Classic Hits Ltd secured a recently awarded FM radio licence covering Monmouthshire, taking the total number of local commercial radio stations in Wales to 18.

Community Radio continues to grow
Following the second round of licensing for community radio stations, three additional stations have been licensed so far this year, bringing the total awarded in Wales to eight. In addition to GTFM, Afan FM started broadcasting in April. A further round of licensing is expected in North and Mid Wales later in the year.

New DAB local multiplex advertised for North East Wales and West Cheshire
Welsh listeners currently benefit from two local DAB multiplexes which cover Cardiff and Swansea (73% of the total population). DAB coverage for local radio services will extend further in 2007/08 following Ofcom's advertisement for a local DAB multiplex for Wrexham and Chester (the closing date for which was early May); Ofcom has future plans to advertise another multiplex that will cover Pembrokeshire, Carmarthenshire, Ceredigion and Powys.

1.1.2 Overlap television reception in Wales

Fewer than one in ten Welsh homes only view channels broadcast from England on their main set
Ofcom's research suggests that 8% of Welsh homes in the border area only view channels broadcast from England. If we include homes that can receive channels broadcast both from 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 figures for homes receiving England-only channels from the Ofcom survey 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 already give prominence to Wales' Public Service Broadcasting (PSB) television channels.

The main reason for watching/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 are also notable reasons given. Seventy-six per cent of those homes receiving only the channels broadcast 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 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 driving 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 surveyed in the research. Moreover, most people's technical knowledge and awareness appeared to be low; 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, compared with less than two-thirds (64%) 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 vote in Assembly elections
To explore the impact of viewing channels broadcast from England on citizenship issues and democratic engagement, the research explored the degree to which people with England-only channels had an awareness of Welsh Assembly issues. 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 of England-only viewers claimed they never voted in Welsh Assembly elections (33%) than among 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; England-only viewers were less likely to be able to name their Member of Parliament than Wales-only viewers (36% of the former could do so, compared with 55% of the latter), suggesting that there could be other factors at play.

1.1.3 Communications services in rural and urban Wales

To complement the supply-side analysis of digital communications service availability that was first presented in the 2006 report, we have this year conducted a survey to examine 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 do perceive themselves not to have access to those services, whether they would prefer to have access.

People in Wales, Scotland and Northern Ireland, rural areas lag 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 urban in Wales, as it is with Scotland and Northern Ireland (but not England).

Perceived availability of communications services is lower in rural areas in Wales when compared to urban areas
Consistent with take-up levels, the research found that perceived service availability is lower in rural areas of Wales than in urban areas. Again, this mirrors the position in Scotland and Northern Ireland, but in England the survey shows little evidence that rural areas lag urban ones.

Demand for services to be made available is highest in Wales and Northern Ireland
The survey found that interest in having communications services made more widely available was greatest in Wales and Northern Ireland. 3G mobile and digital radio in particular attracted interest from between seven and eleven per cent of those in rural areas in Wales and Northern Ireland. Interest in communications service availability was lowest in Scotland where only small minorities (two per cent or less) expressed desire for services to be made available.

1.1.4 The television market

TV viewers in Wales benefit from the second highest spend per head on regional output
With UK-wide spend per head totalling £5.40 in 2006, viewers in Wales benefited from spend of at £12.50 per head. By genre, Welsh non-news/current affairs output emerged as the third most heavily invested genre in 2006, at £6.50 per head. Programme output for Wales cost £28k per hour in 2006, ranking second among the four nations and matching the UK average.

DTV penetration among the highest in the UK in 2006 at 82% of individuals
Wales continued in 2006 to lead the UK in terms of the proportion of homes with digital television connected to their main set. Ofcom's 2006 residential tracking study showed that 82% of individuals had access to digital television on their main set, substantially higher than the UK average of 75% from the same survey.

Non-PSB channels perform well in Wales
Non-PSB channels performed notably well in Wales when compared to the rest of the UK – possibly due to higher levels of digital television penetration. Sky One's share stood at 2.9% compared to the 1.7% UK average and UKTV Gold attracted 2.0% (1.4% in the UK). Among the PSB spin-off channels, ITV2 put in a strong performance with a 2.2% share (UK average 1.4%).

People in Wales more likely to believe there is too much sex, violence/swearing on TV
According to Ofcom's research, Welsh viewers were more likely to believe there was too much, too much sex on television (46% vs. UK average of 36%,) too much violence (63% vs. 55%) and too much swearing (59% vs. 53%).

1.1.5 The radio market

4.5 local radio stations available to the average listener in Wales
There are 17 licensed commercial local radio stations aimed at listeners in Wales along with two national stations from the BBC. On average the typical listener in Wales has access to 4.5 local or national stations per head of population, (2.5 local commercial stations and in most cases listening to one of the BBC national services but with the option of listening to the other). There are also two community radio stations currently on air in Wales, with a further six community licences awarded for stations yet to go on air.

Six in ten local commercial stations in Wales target populations in excess of 250k
A majority of local commercial radio stations in Wales cover larger population areas (in excess of 250k people), with 59% or ten of the 17 licensed stations falling into this category. Just under a third have coverage areas below 100,000 people, implying a similar pattern to that of England's local radio market; Scotland and Northern Ireland have a higher share of smaller coverage (less than 100k) stations.

BBC radio spend per head in Wales highest in the UK
The BBC's spend on its two national radio services for Wales was the highest per head of the four nations, reaching £7.07 in 2006 against the UK average of £2.40. Commercial radio revenue in the same year stood at £19m, 3.9% of the UK total and the lowest per head across the UK (£6.69 compared to £7.89 for the UK).

Welsh people listen to more radio than listeners in any other nation
People in Wales listen to 24.7 hours of radio per week against the UK average of 23.5 hours. The BBC's national and network radio services combined were the most popular choice for Welsh listeners in 2006, attracting a collective share of 60% versus the UK-wide average of 55%. Commercial local stations were less popular in Wales with a share of 24% in 2006 compared to the UK wide average of 32% - perhaps reflecting the lower number of stations available per head in Wales.

Together, BBC Radio Wales and Radio Cymru are the most popular stations in Wales with a combined 15-minute weekly reach of 584k listeners in 2006
Real Radio was the nearest commercial competitor with 388k listeners per week, followed by Red Dragon with 369k. Radio Pembrokeshire achieved the highest reach among listeners within its transmission region, reaching 56% or 60k listeners on a weekly basis.

1.1.6 The telecommunications market

32% of premises in Wales are connected to an LLU-enabled exchange compared to 67% UK average
Approximately one third of Welsh homes were connected to an LLU-enabled exchange at the end of 2006, compared to the UK-wide figure of 67%. Almost all homes in Wales were connected to a DSL-enabled exchange at the end of 2006, although some of these may not be able to receive broadband services. Only 23% of households in Wales had access to cable broadband services at the end of 2006 – which can be partly explained by the geographic features of Wales.

SME fixed line take-up higher in Wales than in any other part of the UK
SMEs in Wales recorded the highest levels of fixed line penetration of any of the four nations at 98% compared to the UK average of 92%. Residential fixed line access in Wales broadly matched the UK average, at 89% of homes compared to 90% for the UK as a whole.

Cross-ownership of fixed and mobile services least popular in Wales
Four out of five people in Wales lived in a household which used fixed and mobile telephony in 2006, matching the UK average. The proportion of mobile-only households in Wales (10%) was also the same as the UK average. Take-up of bundled telephony services (i.e. a range of fixed, mobile and internet services from a single supplier) in Wales also fell below the national average with 22% of residential customers taking a bundled package versus 29% on a nationwide basis.

Residential penetration of internet and broadband in line with the UK average
Household internet penetration in Wales (59%) was similar to the UK average (61%). Similarly, residential broadband take-up in Wales (42%) was in line with the UK average and that of the other nations.

SME internet penetration and broadband penetration lowest in the UK
The proportion of SMEs in Wales reporting internet access in 2006 was 64%, the lowest among the nations, which average 77%. Similarly, broadband penetration among SMEs in Wales was also the lowest among the nations, at 47% compared to the UK-wide figure of 62%.

Mobile spend the lowest in the UK while fixed and internet are highest
While average monthly spend among individuals in Wales with a mobile phone was the lowest among the nations at £15.89, average household fixed line (£21.67) and internet spend (£14.00) were the highest among the nations.