Report to the Secretary of State on the public teletext service

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Section 1

Executive summary

1.1 Under the Communications Act 2003 (CA03), Ofcom must do all it can to secure the provision of a public teletext service. A holder of the public teletext service licence benefits from access to both analogue and digital terrestrial TV (DTT) spectrum, but in return must fulfil public service requirements referred to in CA03 and specified in the Ofcom licence, in relation to national news, regional news and other regional information.

1.2 The public teletext service licence was held from 1993 until January 2010 by Teletext Ltd. However, in December 2009 Teletext Ltd ceased to provide the required service. The company explained that it no longer considered the service economically viable. Ofcom revoked the licence, and imposed a financial penalty on the former operator, for its failure to continue providing the service to the end of the licence term (2014).

1.3 Ofcom has not to date re-advertised the licence to other bidders. This is because of provisions in the Digital Economy Act 2010 (DEA). The DEA requires Ofcom to make a report to the Secretary of State (for Culture, Media and Sport) including:

- an assessment of the advantages and disadvantages for members of the public of the public teletext service being provided (taking into account alternative uses of the capacity); and

- an assessment of whether the public teletext service can be provided at a cost to the licence holder that is commercially sustainable.

1.4 This document constitutes Ofcom’s report to the Secretary of State, as required by the DEA. It is for the Secretary of State to decide, according to the DEA, whether to replace the duty on Ofcom to secure a public teletext provider with simply a power to do so. Should the Secretary of State decide this is appropriate, it would require approval of an order by both Houses of Parliament. Further detail on the legislative background is contained in Section 2.

1.5 In our assessment, we have considered the advantages and disadvantages of the provision of a licensed public teletext service compared with an alternative scenario: the market provision of text information services which exists elsewhere, and the likely alternative uses of the reserved capacity which the public teletext service formerly occupied. We have also drawn on the experience of the previous licensee and considered what would be required to make the licence commercially sustainable.

1.6 The conclusions of our assessment are:

- Use of the public teletext service has declined in recent years. This would be likely to accelerate as digital switchover progresses; the pattern with Teletext Ltd was that the digital service was not nearly as much used by viewers as the analogue service. The reach of the public service was relatively low (only 10% of all TV households used text), although we note that some of these households (especially those that are analogue only; and those with elderly or hearing impaired viewers) may currently benefit from the public service more than the average household. Ofcom recognises the importance of teletext to these groups,
but considers that, following analogue switch-off, the benefit to them of digital text will be very much less than that of analogue text in the past.

- Following digital switchover, nearly all households will have access to DTT. A number of text-based information services – provided by the BBC and commercial operators – will remain widely available on DTT and other platforms and may be complemented by online services. These services provide plurality and meet many public purposes in terms of content for users. Most of the advantages of the public teletext licence to viewers are therefore likely to be met by alternative means.

- However, the commercial market is less likely to provide a service with nationwide (to 98.5%) coverage on DTT, regionalised distribution and regional news and information content. These are the key requirements of a public teletext service, but are also the major source of cost to any potential licence holder.

- The experience of the previous licence holder suggests that the licence as it stands was not commercially sustainable: the licence obligations to universal coverage and regional news and information are a significant source of cost.

- There are a number of alternative uses of the DTT capacity reserved for the public teletext service, which could potentially have greater advantages for members of the public. Notably, the capacity could be utilised to help make space for additional TV services on the relevant DTT multiplex.

1.7 Ofcom therefore considers that the advantages of the public teletext service being provided are limited and diminishing, and outweighed by the disadvantages of reserving capacity for the service on DTT Multiplex 2.

1.8 Additionally, we consider it unlikely that the public teletext service could be made commercially sustainable: if so it would be likely to involve the reduction or removal of the obligations of the licence to regionalised transmission and regional content which would negate much of the public value of awarding the licence.

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1 Digital switchover will extend DTT coverage of three multiplexes carrying PSB services to 98.5% of UK households. The other three commercial multiplexes are likely to only cover 90% of households.
Section 2

Background to this report

Requirement of Ofcom to produce a report on the public teletext service

2.1 Under section 218 of CA03, Ofcom currently has a duty to secure (a) the provision of a single, nationwide, public teletext service in a digital format broadcast by way of a television multiplex service until 2014 (the end of the licence term) and (b) the provision of an analogue teletext service on the spare capacity available on Channels 3, 4 and S4C until the first of these services ceases to transmit in analogue format. Given that S4C is now wholly digital, Ofcom no longer has a duty to secure the provision of an analogue public teletext service, either in Wales, or anywhere else in the UK.

2.2 There are two sections in the DEA relating to Ofcom’s duty to secure the provision of a public teletext service under CA03: section 27 and section 28. Section 28 gives the Secretary of State power to make an order bringing into force amendments to section 218 CA03 that have the effect of replacing Ofcom’s current duty to do all it can to secure the provision of a public teletext service with simply a power to do so.

2.3 The order can only be made if either the Secretary of State has laid before Parliament a report prepared by Ofcom on the public teletext service, or Ofcom has invited applications for a new public teletext service and there were no applicants or no applicants of acceptable quality. In addition, before making the order the Secretary of State must be satisfied that it would be in the public interest to make the order. The order has to be approved by both Houses of Parliament.

2.4 By virtue of section 27 of the DEA, a new section 218A was inserted in CA03 requiring Ofcom to prepare a report for the Secretary of State on the public teletext service. Under the new section 218A (1) of CA03, the report must be sent as soon as practicable after the section comes into force (which was on 8 June 2010). Subsequent reports are then to be prepared at the request of the Secretary of State.

2.5 Further background is that the previous holder of the public teletext service licence – Teletext Ltd – ceased from 15 December 2009 to provide the required service. Ofcom revoked the licence and, as is mandatory under CA03, imposed a financial penalty on Teletext Ltd, for its failure to provide the service up to the end of the licence period (31 December 2014).

Scope of report

2.6 The objectives of this report are set out in the new section 218A(3) of CA03:

“Each report must include, in particular –

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2 See subsections 28(9) to (11) of the DEA on the procedure for removing Ofcom’s duty to secure the provision of the public teletext service.

3 Section 218A(2) CA03.
(a) an assessment of the advantages and disadvantages for members of the public of the public teletext service being provided, and
(b) an assessment of whether the public teletext service can be provided at a cost to the licence holder that is commercially sustainable."

2.7 An assessment under subsection (a) must take account of alternative uses for the capacity that would be available if the public teletext service were not provided. "Capacity" means capacity on the frequencies on which Channel 3 services, Channel 4, S4C and television multiplex services are broadcast.

**Ofcom’s approach to the report**

2.8 Section 3 of this report gives the background to the public teletext service.

2.9 Section 4 sets out our assessment of the public teletext service with reference to the scope of the report. As the analogue and digital versions of the public teletext service have distinct characteristics, economics and alternative uses of their capacity, we have in places considered them separately in this report. We consider that a useful way of considering the advantages and disadvantages of the public teletext service to members of the public is to compare what we think would happen if the service was re-licensed, and the 'counterfactual' of what might happen if it were not re-licensed. Specifically, we have considered the advantages and disadvantages of the provision of a licensed public teletext service compared to the market provision of text information services in general and the alternative uses of the reserved capacity it has occupied.

2.10 Section 5 sets out our assessment of the commercial sustainability of the public teletext service, and particularly the cost to a potential licence holder of its obligations. To do so, we have drawn on the experience of the previous licensee and considered what assumptions would be required to make the licence commercially sustainable.

2.11 Section 6 sets out the conclusion of our assessments and the next steps following submission of this report to the Secretary of State.

**Sources of information**

2.12 We have drawn on Ofcom’s primary research and analysis from the second Public Service Broadcasting Review and Ofcom’s PSB Tracker survey on viewers’ attitudes and the public value of the public teletext service.

2.13 In considering commercial sustainability, we have referred to information previously collated and the submissions provided by the previous licensee in the sanctions case following revocation of the licence.

2.14 We have also interviewed a number of stakeholders and, in some cases, asked for specific information from them in relation to potential services. These stakeholders include: the BBC, Sky, ITV, Channel 4, Teletext Ltd, TV Text Ltd, Data Broadcasting

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4 Section 218A(4) CA03.
5 Section 218A(6) CA03.
6 [http://stakeholders.ofcom.org.uk/binaries/enforcement/content-sanctions-adjudications/teletext.pdf](http://stakeholders.ofcom.org.uk/binaries/enforcement/content-sanctions-adjudications/teletext.pdf)
International, Press Association, Ofcom’s Advisory Committee on Older and Disabled People (ACOD), and the Royal National Institute for Deaf People (RNID). We are grateful to these organisations for giving their time and views on the future of the public teletext service.
Section 3

Background and outlook for TV text services

Legal framework for licence

PSB obligations of the holder of the public teletext service licence

3.1 The holder of the public teletext service licence is one of a number of broadcasters which, under CA03, are “public service broadcasters” (PSBs). The other designated PSBs are the BBC, Channel 3 (comprising the regional services usually known as ITV1, STV, UTV and ITV Breakfast), Channel 4, Five and S4C. These broadcasters have a duty through their public service broadcasting licences (or Charter in the case of the BBC and S4C) to contribute in general to the purposes and characteristics of public service broadcasting, as set out under CA03. The licences are intended to secure universal availability, quality of service, and particular content and plurality of suppliers of it, that might otherwise not be provided by the wider market.

3.2 CA03 states that the public service remit of the public teletext licensee is the provision of a range of high quality and diverse text material\(^7\), and requires this remit to be fulfilled separately on the digital and analogue versions of the public teletext service.

3.3 CA03 also requires Ofcom to include in a licence to provide the public teletext service appropriate conditions to secure that the service includes (a) a suitable quantity and variety of news items, which are up to date and regularly revised\(^8\); and (b) an appropriate proportion of material that is of particular interest to persons living in different parts of the United Kingdom\(^9\).

3.4 The public teletext service licence held by Teletext Ltd until its revocation on 29 January 2010 placed specific obligations relating to the provision of national and international news (not less than 20 pages), regional news (not less than 12 pages), and regional non-news information pages (not less than 24 pages). These requirements applied to both the analogue and the digital versions of the public teletext service and were imposed under the statutory framework described above. The specific obligations relating to news and non-news information pages had been reduced during the period of the licence.

3.5 In common with the providers of the Channel 3, 4 and 5 services, a digital replacement licence was offered to Teletext Ltd in 2004 for a 10 year period to the end of 2014. This licence contained an obligation to broadcast the analogue version of the service until the analogue versions of the Channel 3 and Channel 4 services had ceased at the end of digital switchover, and to broadcast the digital service to the end of 2014. Under CA03, the digital and analogue services can vary in content, or be outsourced by authorising another party to provide the service (in whole or part)\(^10\).

\(^7\) Section 265(4) CA03.
\(^8\) Section 284 CA03.
\(^9\) Section 289 CA03.
\(^10\) Section 218(6) CA03.
CA03 also provides for the renewal or re-licensing of the services at the end of the licence term\textsuperscript{11}.

**Reservation of capacity for the public teletext service**

3.6 In return for the costs associated with delivering public service broadcasting obligations, the regulatory regime offers these broadcasters the benefit of privileged access to capacity for distribution of the service, on both analogue and DTT platforms.

3.7 Capacity is reserved to carry the analogue and digital versions of the public teletext service:

a) the analogue version of the public teletext service was (until cessation of the previous licensed service) carried on spare capacity on the frequencies used by the analogue versions of the Channel 3 services, the Channel 4 service and the S4C service\textsuperscript{12}. Nine pairs of lines of this spare capacity were available for the use of the public teletext service;

b) capacity for carriage of the digital version of the public teletext service is reserved under the Television Multiplex Services (Reservation of Capacity) Order 2008 (TMSO), which the Secretary of State has the power to amend by Order\textsuperscript{13}. Under this statutory instrument, 3 per cent of the digital capacity available on the frequencies on which Multiplex 2 is broadcast is reserved for carriage of the public teletext service. The Multiplex 2 licensee is Digital 3&4, which is jointly owned by the Channel 3 licensees and Channel 4.

**Payments by the public licence holder**

3.8 In common with holders of certain other categories of broadcasting licences, the holder of the public teletext service licence is required to make annual payments which Ofcom collects and pays into the Government’s Consolidated Fund, consisting of a ‘cash bid’ amount, and a percentage of the ‘qualifying revenue’ generated by the licence holder from the provision of the licensed service during an accounting period.

3.9 The amount of the cash bid and the percentage of qualifying revenue are first set at the time of the original licence award, the cash bid being proposed by the bidder as part of the competitive bidding process, but statute provides for certain trigger points at which the licence can be ‘revalued’ by Ofcom. Revaluation could lead to a different cash bid amount and a different percentage of qualifying revenue being specified in the licence.

3.10 In the case of Teletext Ltd’s licence, the most recent revaluation took place in 2006. Ofcom concluded that, if held for its full duration to expiry at the end of 2014, the licence would have a net positive value. However, the generation of profits was significantly skewed towards the earlier years of the licence and the licence would

\textsuperscript{11} Section 222 CA03.

\textsuperscript{12} Spare capacity is determined by Ofcom under section 48 of the Broadcasting Act 1990.

\textsuperscript{13} Section 8(1) of the TMSO provides that if Ofcom reserves digital capacity on Multiplex B, it must also vary the Multiplex 2 licence such that in accordance with subsections (2) and (3) of the Order, 3% of the capacity is reserved for the public teletext provider. In September 2009, Ofcom varied the Multiplex 2 licence in accordance with the TMSO, such that capacity was reserved for the public teletext service.
not be expected to generate profits in its later years. The cash bid was therefore reduced from £1.9m to £25,000 increasing with RPI annually thereafter and the percentage of qualifying revenue was reduced to 5% from its previous level of 18%.

Background on commercial TV text services

3.11 The first commercial teletext service was created in 1974. It was designed to use spare analogue lines on the Channel 3 services to secure competition to the BBC’s Ceefax service (launched in the same year) of a second universally available service of news and information pages.

3.12 The public teletext service licence was awarded in 1991 to Teletext Ltd under a competitive process against other bidders (including the incumbent service, Oracle) that included commitments to the quality of service and a cash bid. Teletext Ltd, a wholly owned subsidiary of Daily Mail and General Trust plc (DMGT), was the holder of the sole public teletext service licence from 1993 until its revocation on 29 January 2010. Teletext Ltd developed the editorial content of the service and established a commercial model based on classified advertising (of which last-minute holiday advertising by travel agents was a major source).

3.13 The launch from 1998 of new digital television platforms, including digital satellite and DTT, facilitated carriage for new commercial TV text services (Sky Text) and digital text services by the BBC and Teletext Ltd on a free to view basis. Teletext Ltd also launched stand-alone commercial services on digital platforms that were outside of the public service licence.

3.14 The development and rapid take-up of the internet and mobile-data services (GPRS, 3G) by consumers has meant a huge increase in consumer choice of frequently updated, interactive text based information services. These have included the launch of internet and mobile versions of traditional news sources (newspapers, magazines, TV) by many different providers, including the broadcasters mentioned above, and new entrants. While a subscription or data payment may be required by the platform operator, the majority of these information sources are free to view and supported by commercial revenues (advertising, sponsorship and paid search).

3.15 The launch of more information services on a wider number of platforms has contributed to the fall in use of TV text services, resulting in a reduction in commercial revenues from advertising to commercial text services. Additionally, key categories of advertising – such as holidays – are widely available on the internet at low rates or free to advertisers, and offer greater functionality (in terms of search and direct response) to consumers.

3.16 The commercial model for the public teletext service has therefore come under significant pressure. Teletext Ltd noted that since a peak in revenue in 2001, the public teletext service had experienced a substantial structural decline in revenues, falling by 2009 to less than 5% of the peak level. Teletext Ltd attributed this to the declining reach of the analogue service, and the lack of replacement commercial revenue associated with the digital service. Teletext Ltd noted that this revenue decline was likely to increase as analogue transmission was switched off during digital switchover.

3.17 On 16 July 2009 DMGT, the parent company of Teletext, issued a press release announcing its intention to cease broadcasting the “loss-making analogue service and a number of digital terrestrial services” in January 2010. Accordingly in mid December 2009 Teletext ceased to provide any of the public service content required
under the terms of the public service teletext licence. Ofcom revoked the public teletext service licence on 29 January 2010.

**Usage of TV text services**

3.18 Viewing data (from BARB) on text services is only available to the end of 2009 – the BARB panel was subsequently changed and measurement of TV text services ceased. Ofcom also included questions on the use and withdrawal of the public teletext service (Teletext editorial services) in its Public Service Broadcasting Tracker survey (conducted in July 2010).

3.19 The data suggests that the reach of all TV text services declined significantly between 2005 and 2007, but then stabilised, with access slightly increasing via the BBC and ITV channels in 2008 and 2009. In 2009 the public teletext service accessed via Channel 3 had a weekly reach of 1.9 million households, with the public teletext service via Channel 4 reaching 0.8 million households per week. This reach was lower than the BBC text services, but higher than other commercial services (on Five and Sky).

![Television text services: average weekly reach, 2005 – 2009](chart)

**Television text services: average weekly reach, 2005 – 2009**

TV Text services – average weekly reach (000s)

Source: BARB (note: panel change occurred in Jan 2010)

Viewing to text services amongst all individuals (reach based on 3mins consecutive)

3.20 Although not based on the same sample, Ofcom’s PSB Tracker indicates that in the six months following the cessation of the public teletext service, of those respondents who had ever used text services, 50% had used BBCi, 31% had used Ceefax, and 19% had used Sky Text. 18% had used none of these.

3.21 The BARB data also suggests that reach of all TV text services was higher on analogue than digital platforms. In the last year of operation (2009), the weekly reach of the BBC services on BBC1 and BBC 2 and public teletext analogue service on Channels 3 and 4 (up to 1.5 million households per week) were significantly higher than digital text services on DTT and other platforms. We note that this difference may be influenced by the wider availability of analogue in terms of coverage and second-sets. However, other research has suggested that even in digital TV households analogue text was the preferred method of access.
3.22 Analysis of the profile of TV text users suggests that, particularly for the public teletext service, they are more likely than average to be older. In 2009, 24% of those who had ever used Teletext, and 44% of regular users of Teletext, were aged 65 or over. This suggests that older viewers are more likely than younger viewers to make use of a Teletext service.

3.23 Ofcom included questions on the withdrawal of the public teletext service (Teletext editorial services) in its most recent PSB Tracker survey. Of respondents who had ever used the analogue or digital Teletext service, 29% had noticed changes to the Teletext service and 72% claimed that they did not miss at all the Teletext services that were no longer available. Most respondents claimed to use the internet (64%) or BBC services (34%) or national papers (26%) or regional papers (24%) in place of Teletext services that were no longer available: 6% of respondents had not turned to another source of information to replace Teletext. Of those now using alternative
sources, 24% claimed they would rather use the Teletext service instead. The only differences by group were for those aged 65 and over or of social grade DE, who were less likely than average to have used alternatives and more likely to claim that they would rather have a Teletext service.

**Outlook for teletext services**

**Ofcom’s view in its second PSB Review**

3.24 Ofcom’s Second Public Service Broadcasting Review in 2008 and 2009\(^\text{14}\) considered the current and potential future position of the holders of the licences for the commercial PSBs taking into account structural market change and the costs and benefits of PSB status.

3.25 Ofcom stated in the PSB Review that it considered that intervention via a public teletext service licence was unlikely to be necessary to secure public purposes after 2014. This was because Ofcom considered that on current evidence the market would deliver a plurality of information service providers, with content related to the public purposes, both on television and via the internet. However, Ofcom proposed that the retention of a public teletext service should be reviewed again in 2012 in the light of broadband take-up, the development of relevant text services at that point, and the usage of digital teletext services post digital switchover.

**Developments since the PSB review**

3.26 In the course of this assessment, we have revisited our analysis in the PSB Review.

3.27 We consider that the availability of platforms carrying text information services has increased. Digital TV penetration is now at 92% of all households, and 80% of all television sets (including secondary sets). Digital switchover is around the half-way mark, and will be completed by 2012. Broadband penetration is currently 71%. The Government recently announced a target of 2015 for universal broadband access for all households.

3.28 In terms of the content of text information services, we consider that the market continues to deliver a plurality of information services that meet public purposes. On TV specifically, the BBC are to continue to operate text services on analogue, until digital switchover is complete, and will continue the BBCi service on all digital platforms which incorporates a wide variety of content, including national and regional news. Sky operate text information services incorporating news, sport, and other information linked to their channels. Teletext Ltd also continues to operate commercial text services by arrangement with ITV and Channel 4 – albeit without the same breadth of editorial content as the previous public service. Our PSB Tracker indicates that weather, TV listings and sports news were the most popular categories of information on Teletext Ltd’s public teletext service. National and regional news pages were used by c.50% of Teletext users.

3.29 In addition to these, the number of text-based information services available online has increased. The majority of national and local newspaper groups now publish online. In addition, specialist information services in key categories – sport, entertainment, travel – have proliferated. The majority of services remain free at the point of use, although some publishers have begun to explore subscription or pay-per-view models. There has also been an increase in the number of mobile

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\(^{14}\) [http://www.ofcom.org.uk/consult/condocs/psb2_1/](http://www.ofcom.org.uk/consult/condocs/psb2_1/)
information service providers either via applications or tailored mobile-websites. Again, mixed commercial models of advertising and payments tend to be followed.

3.30 We have assessed a range of TV and online text information services against the public purposes set out in the PSB Review. We consider that most services are of a high quality and widely available. Some services, particularly from news organisations, offer original content featuring alternative viewpoints: others tend to carry non-original syndicated content. Our research suggests that cultural identity – particularly in representing the nations and regions of the UK – is currently the public purpose most lacking in provision by the commercial market, which is consistent with the findings of the PSB Review. The BBC remains the single most important source of frequently updated text based regional news and information on both TV and online.

Developments going forward

3.31 We consider that the trends identified above in terms of availability and access to platforms and content are likely to continue. Additionally, we consider that these may be enhanced by further technical developments to delivery of information services.

3.32 A number of stakeholders have commented that Internet Protocol (IP) based delivery is the most effective and efficient form of distributing text based information. This allows a wider range of content that can be almost constantly updated, and also greater interactivity from viewers in selecting and responding to the information they wish to view. It also allows greater integration with images and audio and video.

3.33 Going forward, it is likely that IP based delivery will expand from broadband/PC to the TV set. Television and Set Top Box manufacturers are now incorporating IP hardware and software in most new models. Content providers and aggregators are working on a number of initiatives to deliver video, audio and text information via IP. In the future, text information delivered via IP by a wide range of providers (such as the Canvas proposal) is likely to be available direct to the TV set. This will complement broadcast distribution – reducing requirement for broadcast capacity – and in the longer term potentially replace it altogether.

3.34 It is arguable that the availability, coverage and cost of access for viewers to text services delivered via IP may not be as favourable as, for example, broadcast on DTT. However, it is likely to increase, rather than decrease, the capabilities and competition between text information providers to households, and therefore support the trends identified above.
Section 4

Advantages and disadvantages of the public teletext service

4.1 This section sets out Ofcom’s assessment of the advantages and disadvantages of the provision of the public teletext service to members of the public. This includes our equality impact assessment for particular groups of users and assessment against Ofcom’s general duties.

4.2 We consider that a useful approach to identifying the advantages and disadvantages is to consider the provision of text services prior to the revocation of the previous licence. We then compare provision if the service was re-licensed, and the counterfactual of what might happen if it were not re-licensed. We have done so separately for the analogue and digital services.

Analogue public teletext service

4.3 Analogue broadcasting has a very limited remaining ‘shelf-life’, since digital switchover has been achieved in many parts of the country, and will be completed by 2012. Furthermore, as noted above at para 2.1, Ofcom is no longer under any duty to secure an analogue public teletext service, although it retains the power to license one.

4.4 Analogue teletext is limited in terms of capacity to five channels (BBC1, BBC2, Channels 3, 4 and Five). Two TV text services – the BBC service (Ceefax) and the public teletext service (Teletext, as was) are carried in spare ‘lines’ that are reserved for use by these services and are accessed by the text button on the BBC channels (Ceefax) or Channel 3 and 4 services (the public teletext service). Channels 3, 4 and Five also carry text services that offer ancillary information on their channels to viewers.

4.5 Additionally, there are further spare analogue lines which are licensed to other operators for commercial, non-PSB services. These have included consumer services (e.g. holiday advertising, direct Government services) and business-to-business services (e.g. transmission of financial information).

4.6 Provided that an applicant and acceptable bid were forthcoming, re-licensing would restore the public teletext service. This would mean that the spare lines were used for public service broadcasting purposes, and would provide for a public teletext service that offered viewers:

- Plurality and competition to BBC Ceefax on the analogue platform, particularly in the licence obligations in national news, and especially regional news and information. Stakeholders noted that regional news is the most obvious gap in provision by the commercial market (on both TV and online).

- Easy access (via text button) and familiarity in navigation (by page numbers and four fast-text buttons) of the service. Stakeholders particularly felt that the text-button link to Channel 3 and Channel 4 was important for users.
4.7 However, these potential advantages will be relatively short term. The number of analogue only households and viewing sets is in decline. As noted above, digital switchover is in progress and will be completed by the end of 2012: the number of households no longer receiving analogue services is already significant, and will increase quickly. A licensee would have to incur the resource costs of procuring analogue transmission to access a fast declining viewer base. Stakeholders have suggested that it is very unlikely that a licensee would undertake to provide an analogue public teletext service on this basis.

4.8 If the public teletext service were not re-licensed, then the difference would be that the public teletext service – with its licence obligations to content – would not be in place behind Channel 3 and Channel 4 and viewers would lose access to this service. However, the ancillary text services to these channels and the BBC Ceefax service would remain.

4.9 The spare capacity would then be available for the provision of commercial additional services. If there was any interest in use of the capacity at all, these would be likely to be an extension of the existing commercial uses set out above. In this event, it is possible that viewers could benefit from additional commercial only text services, or that business–to–business services could make of the capacity. However, stakeholders have suggested that these advantages would be equally short term and therefore limited due to digital switchover.

Digital public teletext service

4.10 Digital terrestrial broadcasting is operated by multiplex licence holders who contract capacity to broadcasters. The capacity is suitable for transmission of digital data and so can be used for TV channels, radio channels and information services. In principle, data services can occupy up to 10% of the capacity on each multiplex; in practice they occupy considerably less than this. Most of the capacity is contracted to TV broadcasters, for whom it is a sought-after resource.

4.11 TV text services on the BBC’s Multiplexes 1 and B (BBCi) and the Digital 3 & 4 Multiplex 2 (commercial text services for ITV and Channel 4, and previously the public teletext service) will be available to 98.5% of households at the end of digital switchover. The BBCi and ITV and Channel 4 commercial services are accessed behind their channels via the remote control text or red button: however, the digital public teletext service is a separate channel accessed via the Electronic Programme Guide (previously at position Channel 100). All the PSB multiplexes are regionalised and therefore capable of carrying regionalised text services (although to different degrees of ‘granularity’). TV text services on other multiplexes (Sky Text, other commercial text services) will only be available to around 90% of households. One of the commercial multiplexes (SDN) offers very limited regionality, while the other two commercial multiplexes are not regionalised.

4.12 Provided that applicants and an acceptable bid were forthcoming, re-licensing the public teletext service would restore the public teletext service on Channel 100. This would mean that the reserved 3% of Multiplex 2 DTT capacity was used for public service broadcasting purposes, and would provide for a public teletext service that offered viewers:

- Plurality and competition to the BBC, at least in the licence obligation areas of national news and regional news and information. Stakeholders noted that regional news is the most obvious gap in provision by the commercial market (on
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TV and online), but questioned whether – given availability through other media – there was a need for plurality to the BBC.

- Guaranteed universal coverage (to 98.5% of population, compared with around 90% available on other multiplexes) with regionalised distribution (allowing for regional news and information delivery) for a second text service alongside the BBC. Other commercial text services on DTT are carried on lower coverage multiplexes: though potentially a commercial service could contract with D3&4 or the BBC for higher coverage on commercial terms.

4.13 However, it is notable that the digital public service previously provided by Teletext Ltd had a lower reach than the analogue service, even in digital households. Unlike the analogue service, a re-licensed digital public service would not be linked to the Channel 3 and Channel 4 services via the text button but be broadcast as a separate channel with its own EPG number (previously Channel 100). This suggests that reach, use and accessibility of the public service will be lower. Under the TMSO, the capacity can only be used for the digital public service to the exclusion of other potential services.

Alternative uses of capacity reserved for the public teletext service

4.14 If the service were not re-licensed, then the public teletext service would not be in place. However, the BBC and commercial text services would remain, so viewers would still have access to a range of text services.

4.15 The 3% of capacity reserved for the public teletext service on Multiplex 2 would then be left unused, and would effectively revert to Digital 3&4 as the multiplex operator.

4.16 If the TMSO were not changed, the capacity would be available to D3&4 in the short term but with no guarantee of permanent access to the capacity, as this would be required for the public teletext service if one were licensed in the future. This would allow a public teletext service to begin broadcasting at a later date. However, it would prevent the letting or use of the capacity for anything other than temporary enhancements to existing services (which would need to be removed were a public teletext service to be launched). Stakeholders suggest these would be limited to marginally higher technical quality of the pictures or the subtitling of the existing channels on the multiplex. This would deliver limited additional value to viewers, would seem an inefficient use of spectrum, would be a disincentive for investment by the multiplex operator and would effectively be at a higher cost to the existing services on the multiplex (as the cost of the additional capacity used would be distributed between them).

4.17 If the TMSO were amended so that the reservation of 3% of capacity for the public teletext service were also to be removed, this capacity could be re-let by Digital 3&4 for other uses. Ofcom has therefore asked Digital 3&4 about the alternative uses that they consider could be made of this capacity.

4.18 Digital 3 & 4 consider that the capacity could be used more efficiently and to greater public benefit for the carriage of additional high quality video services. Digital 3&4 have suggested that, if coupled with technical efficiency improvements to the multiplex, the combination of the 3% of capacity with other existing capacity would facilitate carriage for a 9th videostream (with no impact on quality of services) and potentially, if further technical improvements are possible, a 10th videostream at some point in the future. While it would require capital investment to secure the
technical improvements required, Digital 3&4 consider that over time this would be offset by the gain in revenue from carriage of additional videostreams.

4.19 Digital 3&4 suggest that, if additional videostreams are created, its shareholders would be most likely to move one of their existing multi-channel services from a commercial multiplex on to Multiplex 2. The channel would then benefit from increased audience reach and size and, potentially, advertising revenues due to its higher coverage. Additionally, those viewers outside of commercial multiplex areas who were previously unable to receive the channel would be able to do so. It would be possible, however, that a channel from outside the ITV and Channel 4 portfolios might occupy the capacity.

4.20 There appear to be a number of advantages from using the 3% of capacity currently reserved for the public teletext service for other purposes:

- It would allow the scarce capacity to be used for the widest possible range of uses. Stakeholders have suggested these could include new SD TV services, which could be either broadcast nationally (with universal coverage) or in specific geographic areas. Uses could also include more radio services, commercial text services or interactive services.

- Viewers would benefit from new service(s) on the multiplex which would be available on a universal, and potentially on a regionalised, basis. This could be a service moved from another DTT multiplex (and therefore made more widely available) or an entirely new service to DTT. Even if it were an existing service moved to the multiplex, this might still lead to a new service replacing it in its former multiplex position, therefore increasing viewer choice.

- Any service would contribute financially to the operating costs of Digital 3 & 4. As Digital 3 & 4 is owned by Channel 4 and the Channel 3 licensees, this would effectively provide a financial contribution to the broadcasters in operating their channels on the multiplex, including their public service channels (i.e. even if they moved across one of their own channels currently carried on a commercial multiplex, it would still provide them with financial advantage, since they would no longer pay carriage costs on the commercial multiplex).

- The financial benefit to Channel 4 and the Channel 3 licensees would enhance the value of their public service licences. This would result in more resources for content for Channel 4. For the Channel 3 licensees it would represent an additional asset from continuing to hold the licences and could be taken into account in any licence valuation.

4.21 The disadvantage is that, without the licensing of a public teletext service with reserved capacity, there would be no guarantee of universal coverage with regionalised distribution (allowing regional news and information delivery) for any text service other than BBCi.

4.22 It would be for Government to decide whether the TMSO is amended or not in respect of the public teletext service. A further option for Government is whether the capacity should be reserved for another purpose.

4.23 Section 243 of the CA03 gives the Secretary of State the power to require Ofcom to vary multiplex licences so as to reserve capacity for particular services. In the consultation on the TMSO, the Government stated that this order can be used only to
reserve capacity for “the relevant public service broadcasters”\textsuperscript{15}. The TMSO required Ofcom to vary the Multiplex 2 licence to reserve capacity to accommodate Channel 5, for S4C in Wales and for the public teletext provider to retain its 3% of capacity on the multiplex. As mentioned at paragraph 4.17, if the reservation of capacity for the public teletext provider was amended, this capacity would in principle be available.

4.24 In time there may be other services with public value for particular viewer groups, for example local TV channels, which may benefit from DTT carriage. However, the capacity currently reserved for the public teletext service (3% under the TMSO) is insufficient in itself to allow for an additional videostream. Also, the current technical configuration of the multiplex (to deliver the different Channel 3 regional services) would need to be re-engineered to deliver individual services targeted to more localised geographic areas.

**Equality impact assessment**

4.25 We have considered whether the advantages and disadvantages set out above are of particular impact on different consumer groups.

4.26 We consider that the advantages identified above for a public teletext service may be of potential higher benefit to the following particular households:

- analogue only households, who currently have access to a more limited number of TV text services than other households;
- viewers in the UK nations – particularly Northern Ireland – who in the PSB Tracker claimed higher use of Teletext regional news and information and to miss the service more; digital switchover also occurs at a later date in Northern Ireland than most other parts of the UK;
- elderly people, who constitute a high proportion of regular TV text users, are more likely to use the service than younger viewers, and are less likely than average to adopt new interactive platforms; and
- hearing impaired people, who may find the news and information content of TV text services more valuable than other TV services (i.e. TV channels).

4.27 We do not have precise information on the numbers of households in these groups, and therefore estimate these from existing sources of information:

- analogue only households: currently 8% but falling to 0% (Ofcom Digital TV Tracker)
- TV households in the UK nations: 9% (Ofcom Communications Market)
- regular Teletext user households with elderly people (over 65): 44% (BARB)

\textsuperscript{15} Paragraph 15 of the consultation on the TMSO stated that it “...can be used only to reserve capacity for the relevant public service broadcasters and not for a. The BBC; b. Teilifís na Gaeilge (TG4); c. The Gaelic Digital Service (GDS); d. Any commercial, non-PSB broadcaster.” The consultation on the TMSO can be found at: http://webarchive.nationalarchives.gov.uk/20100407120701/http:/www.culture.gov.uk/images/consultations/DTTReorganisation.pdf
• severely or profoundly hearing impaired households: 1% (RNID and Institute of Hearing Research).

4.28 The above households may be slightly more affected by the absence of the public teletext service. Together these types of household make up c50% of the previous public teletext user base (up to 2.7 million households per week), or c1.35 million households (c5% of all UK TV households).

4.29 We consider this is probably an upper estimate. There is likely to be significant overlap in the groups identified, particularly elderly and analogue only and hearing impaired households. Therefore the number of households that are affected will be more limited. We also note that stakeholders such as ACOD and RNID have indicated that there has been little reaction from their constituent groups following withdrawal of the public teletext service. Additionally, our PSB Tracker research suggests that households with elderly people or those with people of any disability were only slightly more likely than average (37%, compared to 28%) to notice and miss the lack of a public teletext service.

4.30 Therefore we consider that, although there is currently a greater than average benefit to particular households from a public teletext service, most benefits will be met through alternative means. Households will still have access to BBC services, other TV-based text services and other text-based information sources (such as national and regional press or subtitling of TV video services) as a source of news and information. Following digital switchover, nearly all households will have access to a range of services via DTT, which may be complemented by an increasing availability of internet delivered services as universal broadband access progresses.

4.31 The disadvantages of the public teletext service being provided will primarily affect DTT households (who may not then benefit from alternative uses of the capacity) but are not likely to affect any particular group of members of the public more than others.
Section 5

Assessment of commercial sustainability

5.1 This Section sets out our assessment of the commercial sustainability of the public teletext service. This is based on the experience of Teletext Ltd, views from stakeholders and Ofcom’s assessment of the assumptions needed for commercial sustainability going forward.

Lack of comparable services

5.2 The revenue and costs associated with the public teletext service have unique characteristics. The costs associated with the service are strongly tied to the particular nature of the service, its requirements and the technology which underpinned it.

5.3 Because there has only ever been one public teletext service licence in force, there have never been any directly comparable commercial competitors. Other commercial text based services have been of a much smaller scale than the public teletext service in revenue terms, whilst not having the same regulatory requirements relating to content or coverage. Uniquely for a commercial text based service, the public teletext service also had a number of mandatory content and technical requirements. This means that comparisons with other text based services are unlikely to provide significant insight into the commercial viability of the public teletext service.

5.4 The distinct nature of the cost and revenue streams of text based services also means that there is little value in making direct comparisons between the commercial viability of the public teletext service and the viability of those businesses – television broadcasting, newspaper publishing and advertising funded content – which might be considered to be the closest comparators. This is because the nature of the classified advertising income earned by Teletext was different from the display advertising income earned by television broadcasters.

The experience of the previous licence holder

5.5 The limited degree to which viability can be inferred from other operators means that an assessment of commercial sustainability of a public teletext service is substantially restricted to an assessment based on the actual experience of Teletext Ltd itself.

5.6 As the long standing incumbent, we consider that Teletext Ltd would have been able to assess and effect changes to improve commercial sustainability. We consider that the fact that Teletext Ltd determined that the licence was not commercially sustainable, culminating in its cessation of the public teletext service, is strong evidence that the service as currently constructed is not commercially viable. We have no reason to believe that Teletext had either incentive to give up a commercially viable service nor inherent inefficiencies which would have hampered its ability to make the service profitable.

5.7 It is conceivable that Teletext Ltd’s operating model could have been improved and made commercially viable by another operator. However, we consider that there is little evidence of this to date:
• As the main commercial operator of UK teletext services throughout the period, Teletext Ltd would have been well placed to generate any scale economies that might have been available. It would also have been possible for Teletext Ltd to gain cost and revenue synergies between the public teletext service and the other services operated by Teletext Ltd which were not part of the public teletext service. Teletext Ltd themselves have suggested that they continued to operate the service by cross subsidising it from other activities.

• Teletext Ltd’s position as market leader suggests that it was well placed to exploit the service commercially. We note that Teletext Ltd intends to continue to operate commercial services, which we expect would continue to be the market leader and account for a significant proportion of available revenues available for commercial text services.

• Prior to cessation of the service, Teletext Ltd approached a number of companies to establish whether they would be interested in taking over the operation of the public teletext service, but none of the companies approached considered that such an acquisition was attractive. This suggests that Teletext Ltd was not alone in assessing the service to be commercially unviable and that even those companies considered by Teletext Ltd to be the most likely potential purchasers of the licence were also unable to envisage operating the licence for an attractive return.

• Even in the absence of a direct approach from Teletext Ltd, its announcement that the service was to be closed would have effectively acted as a signal to any other interested parties that it might be possible to acquire the service. However, Ofcom understands that no expressions of interest were received by Teletext Ltd.

**Ofcom’s 2006 assessment of the value of the public teletext service**

5.8 In 2006, Ofcom undertook a review of the financial terms which applied to the public teletext service. This review involved an assessment of the value of the licence and, in particular, considered the returns that would be available from the licence were it to be acquired by a new entrant to the market.

5.9 The review involved scrutiny of the confidential business plans and management accounts submitted by Teletext Ltd and judgement about both the costs of entry for a new entrant and future cost and revenue trends. This assessment concluded that, based on the licence requirements at that time and Ofcom’s view at that time of the likely future pattern of costs and revenues it was likely that the licence would incur significant annual losses from 2009 onwards.

5.10 Contributing to this assessment were the following factors:

- The main form of access to teletext services remained through the analogue platform, which was in decline, whilst digital teletext services were less popular with users.

- The digital capacity offered by the public teletext service was limited such that once PSB content requirements had been met there was limited remaining capacity for revenue generation.

- The increasing availability of the internet also presented a considerable challenge to teletext services.
5.11 Ofcom’s assessment in 2006 was therefore that the licence appeared to have limited value to a new entrant beyond 2009 if it were operated on a standalone basis. It appeared that the value of the licence might lie in acting as a cross promotional tool to other services: for example, Teletext used the licensed service as a means of directing viewers towards its separate holiday service. However, as the reach of the licensed service fell, this value may have declined over time.

**Recent indicators of commercial sustainability**

5.12 We consider it unlikely that the commercial viability of the service has improved in the years since Ofcom’s assessment. In particular, reach of the service has continued to decline and internet access has become more widespread. This means that the revenue generating capacity of the licence is likely to have shrunk relative to the costs required to operate the licence.

5.13 Although content and regionalisation requirements were eased by Ofcom as part of Ofcom’s Second PSB Review, the licence still retains a substantial number of obligations which Teletext Ltd cited as being burdensome. While the cost of analogue transmission will be progressively removed during digital switchover, the cost of DTT transmission on Multiplex 2 will increase with coverage build out: we estimate that the payment for DTT transmission on Multiplex 2 would be likely to double by the end of digital switchover. The PSB content obligations – particularly to regional news and information – are also significant. Stakeholders have commented that the particular regional footprint and technical format required for the public teletext service adds significantly to this expense, and therefore that synergies with, for example, local newspaper groups would be difficult to achieve.

5.14 Following revocation of the licence, Teletext Ltd said that since a peak in revenue in 2001, the public teletext service had experienced a substantial structural decline in revenues, falling to less than 5% of the peak level in 2009. Teletext attributed this to the declining reach of the analogue service, and the lack of replacement commercial revenue associated with the digital service. This was also in part due to the limited capacity for commercial inventory, which had required Teletext Ltd to remove holidays classified advertising – which represented the great bulk of revenue for the public teletext service – from the digital public service to operate this as a separate commercial service (which they continue to operate). Teletext Ltd indicated that the revenue generated by the public teletext service had now fallen to a level where it was insufficient to cover the PSB content required by the licence, and that total costs of operation were close to three times the revenue available. This suggests that the service was loss making at the operating profit level, even before other overheads were considered.

**Assumptions for commercial sustainability**

5.15 Ofcom considers that significant changes in the performance or operating model of the public teletext service would need to be assumed if the service could return to commercial sustainability.

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16 Under the TMSO, terms would be for agreement between Digital 3&4 and the licence holder. In the event that a new licensee cannot agree terms with Digital 3&4, Ofcom has the power to determine them. In a recent price determination between Channel Five and Digital 3 & 4 for carriage on Multiplex 2, Ofcom adopted a market price based approach but with an adjustment to include a reasonable contribution to the common costs incurred by the multiplex operator in the provision of the additional PSB coverage. These costs are increasing due to the build out of the transmission network required to deliver 98.5% coverage, compared to the network to deliver 90% coverage. In principle, this additional coverage creates the opportunity to generate additional revenue from additional households, but this is not necessarily in proportion to the additional cost.
Proposal of a new entrant

5.16 Ofcom have received an expression of interest in the public service licence from TV Text Ltd, who provide teletext solutions for broadcasters in the UK and Europe. Ofcom asked TV Text Ltd for more details of their proposal and how they consider a service could be made commercially sustainable.

5.17 In summary, TV Text consider that there remains a public demand for a service presented in the familiar ‘analogue’ style of text, but broadcast on DTT via Channel 100. TV Text’s proposed service would include the required national and regional news and information pages in this service, and supplement this with a wide range of sports coverage, travel information, entertainment, lifestyle and interactive content. They would also introduce new features such as Twitter feeds and text commentaries on programmes.

5.18 TV Text consider that the commercial sustainability of the service could, compared to the experience of the previous licence holder, be improved by:

- Increasing revenues from advertising significantly from the travel, betting and gaming and personal finance sectors and by SMS alerts.
- Reducing the capacity used to a minimal level by supplementing a limited broadcast service with a comprehensive IP-delivered service to compatible internet enabled set top boxes, thereby reducing transmission costs.
- Reducing overheads in terms of operational costs (staff) and marketing costs (due to interest in a new service, and use of online and mobile advertising).
- A variable cost model for content, by procuring content from suppliers on a revenue share basis.

5.19 While we agree with TV Text’s view that revenues and costs would have to be significantly changed in such categories, and would be appropriate for a purely commercial service, we are not convinced that the scale of changes necessary could be met, given the unique requirements of the public teletext service.

5.20 Given the decline in viewing for the service and the structural decline and competition in key advertising markets (including from other commercial text services, such as Teletext Ltd’s Holidays service itself) it seems unlikely that advertising revenues could be increased so significantly unless a major new revenue stream is identified.

5.21 It is possible that some of the operating costs of the service could be reduced: some categories of overhead (e.g. property, staffing, sales and marketing) are variable and may be different for a new entrant to the licence. However, others such as transmission contracts are relatively fixed: indeed the value of the contract for transmission on Multiplex 2, which would be set by reference to capacity value, is expected to increase significantly with the roll-out for digital switchover.

5.22 However, the major cost of the service remains content, and a significant proportion of this relates to PSB obligations, particularly to gathering and broadcasting regional news and information: the previous licensee estimated that these represented over a third of total content costs. Therefore a reduction in content costs, or linking content provision to available revenue, would seem to necessitate a reduction in volume and/or quality of content and a further relaxation of PSB obligations. Such reductions
would inevitably impact the degree to which the licence fulfilled unique public purposes.

5.23 We therefore consider that it is very unlikely that the public teletext service could be made commercially sustainable, and if so it would be likely to involve the reduction or removal of the obligations of the licence to regionalised transmission on Multiplex 2 and regional news and information content. Without these public service components of the service, there would be little justification for reserving capacity or awarding a licence.
Section 6

Conclusion and next steps

6.1 The conclusions from our assessment are set out below.

6.2 The public teletext service has declined in use in recent years. This is likely to accelerate as digital switchover progresses, as the digital service is not used by as many viewers as the analogue service. Immediately prior to the cessation of service, the reach of the public service licence was relatively low (10% of all TV households on a weekly basis) compared to TV channels, although we note that some users in particular households (analogue only, as those with elderly or hearing impaired viewers) may value the service more than average.

6.3 A number of text-based information services are widely available on DTT and other platforms. Availability and competition between services is likely to increase. These services provide plurality in addition to the BBC and meet many public purposes in terms of content for viewers. However, the market is less likely to provide universal coverage and regionalised distribution for a text service to include regional news and information content. These are the key advantages a public teletext service could offer, but also a significant source of cost to any potential licence holder.

6.4 In time, delivery of text information services may move to IP based delivery to a number of platforms, including TV. There are a number of alternative uses of the DTT capacity reserved for the public teletext service, including additional TV services, which would be of potentially greater benefit to viewers. These advantages would not be realised if the public teletext service were to be re-licensed.

6.5 Ofcom therefore considers that the advantages of the public teletext service being provided are limited and diminishing, and outweighed by the disadvantages of the reservation of capacity for the service on Multiplex 2, given alternative uses. Additionally, we consider that it is very unlikely that the public teletext service could be made commercially sustainable: if so it would be likely to involve the reduction or removal of the obligations of the licence to regionalised transmission and regional content, which would negate much of the value of awarding the licence.

Next steps

6.6 This report is being submitted to the Secretary of State. The Secretary of State will consider whether to change Ofcom’s current obligation to re-license the public teletext service, and if so would bring this before both Houses of Parliament. There would be prior public consultation on this matter.

6.7 If the obligation was maintained, Ofcom would be obliged to re-advertise the public teletext service licence. It is possible that the structure or obligations of the licence would be changed. The award process is set out in Schedule 10 to CA03: it is a highest cash bid process, subject to applicants meeting a ‘quality threshold’ on specified matters. If the current obligation to re-advertise the licence is replaced with only a power to do so, Ofcom would then have to decide, taking account of all of its relevant statutory duties, whether or not to re-advertise the licence. In reaching this decision, we would take account of any comments from interested parties during the discussions leading to the change in legislation.