

Renewal of the Independent National Radio licences – determination of financial terms

On 10 December 2020, The Legislative Reform (Renewal of Radio Licences) Order 2020 became law. This allows the licence holders for the three analogue Independent National Radio (INR) licences (Classic FM, Absolute Radio and talkSPORT) to apply for a 10-year licence renewal. These licences are currently due to expire in 2022.

All three licence holders applied for a licence renewal in January 2021.

To renew these analogue licences, the Broadcasting Act 1990 (1990 Act) requires us to set financial terms payable by the licensee in the form of a percentage of qualifying revenue (PQR) and cash bid. The 1990 Act requires us to consider the results of a hypothetical auction to determine the cash bid for each licence.

Since these licences were originally granted in the early 1990s, we have determined financial terms four times as set out below. Each licence holder has been paying nominal financial terms of 0% PQR and £10,000 cash bid since the 2010 review. We last set financial terms in 2017.

	Classic FM		Absolute Radio		talkSPORT	
	PQR	Cash bid	PQR	Cash bid	PQR	Cash bid
2017 review	0%	£10k	0%	£10k	0%	£10k
2010 review	0%	£10k	0%	£10k	0%	£10k
2006 review	6%	£50k	0%	£100k	0%	£100k
1999-01 review	14%	£1m	12%	£1m	6%	£500k
1991-94 auction	4%	£670k	4%	£1.8m	4%	£3.8m

We set out the methodology applied in calculating the financial terms for each licence on 18 December 2020 ('the 2020 methodology document').¹ Our methodology reflects the requirement under the relevant provisions of the 1990 Act to determine part of the financial terms based on an assessment of the amount each incumbent would have bid were their licence for the further renewal period to be granted afresh in a competitive auction. It also reflects that we may also revise the PQR a licensee must pay.²

As set out in the 2020 methodology document, the amount the incumbent would bid in a competitive auction would be the minimum required to beat the second-highest bidder, and as such would not necessarily represent the maximum amount the incumbent would be willing to pay. The valuation of each licence is therefore based on the value of the rights and obligations associated with the licence to a hypothetical new entrant, including an allowance for entry costs, since it is this valuation that would determine the amount that the incumbent would have to bid in order to retain the licence in a hypothetical auction.

¹ See [Renewal of the Independent National Radio licences – methodology for a review of financial terms](#).

² Section 103A(6)(b) and (7), as applied to further renewals by section 103B(2).

The principal right associated with the licence is the right to broadcast radio using analogue spectrum with national coverage (FM for Classic FM and AM for Absolute Radio and talkSPORT) and the principal obligation is the requirement to simulcast the analogue service nationally on DAB.

Determination of financial terms for the new 10-year licence period

We reviewed the financial terms for each of Classic FM, Absolute Radio and talkSPORT based on financial and other evidence from the licensees and other sources.

Our review indicated that the profits derived from analogue transmission will continue to reduce over time as analogue listening as a proportion of total listening falls.³

A new entrant, however, would incur significant entry costs before it was able to generate similar analogue profits to the incumbent. These entry costs would include, for example, launch marketing costs, other start-up costs (such as dry running costs and capital expenditure) and reductions in revenue (compared to those generated by the current licence holders) as audiences take time to build up.

Our review concluded that, for a hypothetical new entrant, these entry costs would outweigh the potential profits available from broadcasting nationally on analogue in the ten-year duration of the renewed licence.

Therefore, our conclusion for each of the licences under review was that, on the basis described in the 2020 methodology document, a hypothetical new entrant would not be prepared to make financial payments in return for the right to broadcast nationally on analogue for the period under consideration. As a result, the incumbent licence holders could retain their licences in a hypothetical auction for a nominal amount. In the 2020 methodology document, we said that in such circumstances we would set the cash bid at £10,000 consistent with previous reviews.

Consequently, we have decided to set the financial terms for each of Classic FM, Absolute Radio and talkSPORT at a nominal cash bid of £10,000 per annum with a 0% PQR.

Next steps

Classic FM and Absolute Radio have until 30 April 2021, and talkSPORT has until 31 December 2021, to accept or reject the new financial terms. Acceptance of the terms is required in order for the licences to be renewed. If they are renewed, the new licence periods will be as follows:

Service	Start date	End date
Classic FM	1 May 2021	30 April 2031
Absolute Radio	1 May 2021	30 April 2031
talkSPORT	1 January 2022	31 December 2031

20 April 2021

³ As set out in the 2020 methodology document statement, we estimated the profits attributable to the analogue licence by apportioning revenues and costs on the basis of listener hours.