
Additional Services Licence

Statement following our consultation ‘Advertisement of a national radio Additional Services licence’

[Statement: Additional Services Licence](#) – Welsh overview

STATEMENT:

Publication Date: 25 October 2021

Contents

Section

| | |
|---|---|
| 1. Overview | 3 |
| 2. Decisions on aspects of the next Additional Services licence | 6 |

Annex

| | |
|---------------------------------------|----|
| A1. Spare capacity | 10 |
| A2. Computation of qualifying revenue | 11 |

1. Overview

What we have decided – in brief

Additional Services are services which use the ‘spare’ capacity within the signals carrying sound broadcasting services on relevant frequencies, for example to transmit data.

Ofcom is required to do all it can to secure that all the spare capacity on relevant frequencies which is available for Additional Services is used for their provision under Additional Services licences.

There is currently one Additional Service licence. It is held by INRIX UK Ltd and is used to transmit traffic and road travel information to in-car navigation devices, using spare capacity on the national FM frequencies used to broadcast Classic FM. INRIX’s licence is due to expire on 28 February 2022.

In September 2021 Ofcom published a consultation on matters relating to some of the characteristics of a new Additional Services licence. This statement document explains our decisions on the matters on which we consulted. We have also published a licence advertisement in the form of a Notice setting out Ofcom’s proposal to grant a new Additional Services licence. This is published separately to, but at the same time as, this statement.

- 1.1 Additional Services are services which use the spare capacity within the signals carrying sound broadcasting services on relevant frequencies, for example to transmit data. They can be provided under licences granted by Ofcom under the Broadcasting Act 1990 (“the 1990 Act”).
- 1.2 The current Additional Services licence for radio, which is held by INRIX UK Ltd (“INRIX”), is used to transmit traffic and road travel information to in-car navigational devices by using the RDS sub-carrier on the frequencies used to broadcast the Classic FM sound broadcasting service under licence INR1. The INR1 licence is held by Classic FM Ltd. The current Additional Services licence is due to expire on 28 February 2022.
- 1.3 In September 2021 Ofcom published a consultation on matters relating to the advertisement of a new Additional Services licence. This consultation was publicised to stakeholders via our radio-related mailing list. This final statement document explains our decisions regarding the matters on which we consulted. A new licence is advertised alongside the publication of this document.

The consultation

- 1.4 The purpose of our consultation document was to seek views on our proposals concerning the following aspects of the new Additional Services licence:
 - the duration of the licence;
 - the determination of the amount of spare capacity available for the provision of the Additional Service under the proposed new licence; and
 - the level of the (annual) payment to be made by the new licence holder based on a specified Percentage of Qualifying Revenue (“PQR”).

- 1.5 A total of five questions were asked about these matters:
- Question 1: Should the duration of the Additional Services licence be shorter than the nine years and two months proposed? If so, please comment on how long you consider it should be and explain why that is the case, providing any evidence you might have to support your analysis.
 - Question 2: Do you agree with Ofcom’s proposed determination of the spare capacity that would be available for the provision of the Additional Service under the proposed new licence?
 - Question 3: Do you agree with our analysis regarding the factors to take into account when setting the level of the PQR?
 - Question 4: At what level should we set the PQR?
 - Question 5: do you have any other comments on the proposals?
- 1.6 The [consultation document](#) also set out the legal position on certain other matters relating to the proposed new licence, in Section 2. These included the process Ofcom will follow in considering applications for the licence and making an award decision. What we said on these matters was for the benefit of stakeholders, and are not directly related to the issues on which we consulted. However, we invited stakeholders to comment on what we said.
- 1.7 We received no responses to the consultation.

Ofcom decisions

- 1.8 Ofcom’s decisions on the matters set out in paragraph 1.4 above are summarised in the paragraphs immediately below. In section 2 of this statement we set out more fully what we proposed in our consultation document, and the reasoning supporting our decisions. We received no responses to our consultation.

Duration

- 1.9 The new Additional Services licence will be issued for a maximum period of nine years and two months, commencing on 1 March 2022 and ending on 30 April 2031¹ the same date as the current INR1 licence. However, the duration of the licence will be subject to earlier termination for *any reason* (as explained in the advertisement for the licence and accompanying draft licence terms).

Relevant frequency and spare capacity

- 1.10 Ofcom will advertise a new Additional Services licence to use spare capacity within Classic FM’s allocated frequencies used to broadcast the Classic FM sound broadcasting service under licence INR1; and the frequency and amount of spare capacity for the new

¹ Unless the licensee agrees a different start date with Ofcom (and the maximum duration of the licence will shorten if the start date is later).

Statement: Additional Services Licence

Additional Services licence will be the same as for the current licence, as specified in Annex 1 to this statement.

Percentage of Qualifying Revenue (PQR)

- 1.11 We intend to set the level of annual payment for the new Additional Services licence as a percentage of qualifying revenue (PQR) at 4%.

2. Decisions on aspects of the next Additional Services licence

- 2.1 In September this year, Ofcom published a consultation around the proposed licensing of a new Additional Services licence. The purpose of this consultation was to seek views on three aspects of the proposed licence:
- whether the new licence should have a shorter duration than the maximum possible in the circumstances;
 - the determination of the amount of spare capacity available for the provision of the Additional Service under the proposed new licence; and
 - the level of the (annual) payment to be made by the new licence holder based on a specified Percentage of Qualifying Revenue (“PQR”).
- 2.2 We received no responses to our consultation.

Licence duration

- 2.3 In our consultation document Ofcom proposed that the new licence should have a maximum duration of nine years and two months, running from 1 March 2022 until 30 April 2031, so that it expires when the Classic FM sound broadcasting service licence would expire, rather than being any shorter. We set out that the proposed licence may not, under the current legal framework, be longer than the period proposed, but invited views on whether the licence period should be shorter than nine years and two months.

Consultation proposal

- 2.4 We asked in the consultation document:
- Should the duration of the Additional Services licence be shorter than the nine years and two months years proposed? If so, please comment on how long you consider it should be and explain why that is the case, providing any evidence you might have to support your analysis.*
- 2.5 In the consultation we noted the inextricable link between the Additional Service and the INR1 service on whose frequencies it is carried. The former depends on the latter, and must end if the latter ends. Accordingly, the new Additional Service cannot end on a date that is later than the current INR1 licence. The current INR1 licence, held Classic FM Limited, is due to expire on 30 April 2031.
- 2.6 We then considered whether the licence duration should be shorter than the maximum period set out above. We noted two reasons why this might not be the best approach, as set out in our December 2016 consultation:
- a licensee is likely to want the longest possible licence term available; and

- we recognise that, in an auction situation, the longer the licence, the more bidders there are likely to be for it, and the more they might be prepared to bid.

2.7 We explained that we do not consider that the circumstances have changed significantly since January 2017 (the closure of the 2016 consultation). Therefore, subject to responses and evidence to this consultation, we proposed not to shorten the duration of this licence and that it should run for nine years and two months.

Decision

2.8 There were no responses to the consultation that we could consider when assessing our proposal for the duration of the licence. We therefore stand by the reasoning set out in our consultation document in support of our proposal. As a result, we will be setting the duration of the new Additional Services licence as a period of nine years and two months, with an end date coinciding with the end date of the current INR1 licence.

Spare capacity available

Consultation Proposal

2.9 In our consultation document Ofcom proposed that:

- subject to final confirmation from the INR1 licence holder, we should advertise and in due course award and grant a new Additional Services licence to use spare capacity within Classic FM's allocated frequencies under licence INR1; and
- the extent and nature of the spare capacity available to provide Additional Services should be the same as that available under the current Additional Services licence.

2.10 We set out our proposed technical specifications for the new licence at Annex 4 to the consultation document and asked:

Do you agree with Ofcom's proposed determination of the spare capacity that would be available for the provision of the Additional Service under the proposed new licence?

2.11 We set out in our consultation document Ofcom's functions and powers under section 114 of the 1990 Act concerning the determination of the spare capacity available in respect of the Additional Services licence and INR1.

2.12 We noted when we considered this issue last time following our December 2016 consultation, that a determination that at least the same capacity as was currently available for Additional Services would have a positive impact consistent with Ofcom's main and general duties to secure a wide range of services throughout the UK, and to make the optimum use of spectrum.

2.13 In determining the amount of spare capacity available on the relevant frequencies we have to have regard to any need of the Classic FM licence holder, Classic FM Ltd, to be able to use part of the signals carrying its service for providing services which are ancillary to programmes included in its service. Ofcom's discussions with Global Radio, the parent

company of Classic FM, indicate that the same amount of spare capacity will be available on the relevant frequencies.

Decision

- 2.14 We consider that the reasoning behind our proposal still stands, and have received no responses to the consultation to challenge this position. The amount of spare capacity available for the new Additional Services licence will be as set out in our consultation, and in Annex 1 to this statement – the same as the current Additional Services licence.

Payments as a Percentage of Qualifying Revenue

Consultation Proposal

- 2.15 The holder of an Additional Services licence is required, under section 118 of the 1990 Act, to make a payment each year of the amount specified in his cash bid (which is increased annually by RPI) and an additional payment based on a Percentage of Qualifying Revenue (“PQR”) determined by Ofcom (and which may be nil). These payments go to HM Treasury.
- 2.16 Any firm seeking to acquire the licence would need to make an overall assessment of the scale and timing of future costs and revenues as part of drawing up a business plan and the PQR payment would simply represent a cost.
- 2.17 One effect of a PQR set above zero would be a shift in payments from cash bids to PQR payments. However, there may be a number of reasons why the level of the PQR may do more than alter the relative size of the two payments. This may affect the actual outcome of the award process (including the identity of the winner and the revenues generated) and the behaviour of the winner after the licence has been awarded. We identified a number of issues in the consultation:
- 2.18 If the level of the PQR is too high, the licence could become unprofitable (because the cash bid could not be adjusted to be less than zero) and there may be no bidders. This tends to support a zero, or at least low, PQR.
- 2.19 A PQR greater than zero gives an advantage to firms with a low revenue/low cost business model compared to rivals with a high revenue/high cost business model. This also tends to support a zero, or at least low, PQR.
- 2.20 A PQR greater than zero allows risk-sharing with respect to revenue fluctuations. This could affect different bidders differently. On balance, we did not consider it would be efficient to set a non-zero PQR because it allows risk-sharing.
- 2.21 It is possible that a non-zero PQR could affect the efficient allocation of the licence as part of this award process, especially if the auction is not very competitive. But it is not clear whether it would improve or worsen the allocation in the auction.
- 2.22 A PQR greater than zero could distort the behaviour of the winning bidder by providing a disincentive to business expansion (as each additional £1 of revenue increases its licence

payment by £1 multiplied by the rate of PQR). This tends to support a zero, or at least low, PQR.

- 2.23 We considered that these considerations strongly pointed against a high PQR, and argued for a low or zero PQR.
- 2.24 We also noted that the current level of PQR of 4% does appear to have worked reasonably well. There was only one bidder in the auction in 2017. The current licensee, INRIX, has provided useful services to consumers. We are not aware of any problems that have arisen from the current level of PQR.
- 2.25 Based on these considerations, we consulted on two main options:
- setting a PQR of zero; or
 - retaining a 4% PQR as used for the current Additional Services licence.
- 2.26 We asked two questions related to PQR:
- Do you agree with our analysis regarding the factors to take into account when setting the level of the PQR?*
- At what level should we set the PQR?*

Decision

- 2.27 We consider that the analysis that lead to our proposal on PQR is correct. We have not received any responses to this proposals to challenge our reasoning. We therefore plan to set the level of annual payment for the new Additional Services licence as a percentage of qualifying revenue (PQR) at 4%, the same as the current Additional Services licence.

Award mechanism

- 2.28 We indicated in our consultation document our intention to adopt a two-stage approach to the licence award:
- first, we will invite cash bids; and
 - second, if there is more than one eligible bidder, we will consider whether exceptional circumstances exist which make it appropriate for Ofcom to award the licence to an applicant other than the highest cash bidder.

Conclusions

- 2.29 We received no responses to our consultation. We therefore intend to implement the approach set out in Section 6 of the September 2021 Additional Services licence consultation.

A1. Spare capacity

Available RDS capacity

- A1.1 The service is to be operated on the RDS sub-carrier conforming to IEC standard 62106:2018/2021 using one or more of only the following allowable features:
- TDC (Group 5A)
 - Paging (RP) (Group 7A with part of Group 1A)
 - TMC (Group 8A)
 - IH (Group 6A only)
 - ODA (Various allowable Groups: refer to specification)
- A1.2 The group repetition rate available to the Licensee will be, to the extent necessary:
- an average of 2.4 groups/sec, averaged over any one-minute period
 - a minimum of 1 group in any second
 - groups/sec. for consecutive seconds in every five-minute period in every hour;
 - such parts of the overhead signalling capacity in the RDS bitstream, notably group types 3A, as are necessary for use of the above-referenced Additional Services groups.
- A1.3 No further capacity beyond this is to be made available to the Licensee.
- A1.4 The minimum deviation of the FM carrier due to the modulated RDS subcarrier shall be ± 2.0 kHz, and the maximum deviation shall be ± 2.5 kHz.

A2. Computation of qualifying revenue

- A2.1 In section 2 of this statement, consideration has been given to one of the additional payments – the PQR (percentage of qualifying revenue). Ofcom is required under the Broadcasting Act 1990 and Broadcasting Act 1996 to draw up, and from time to time review, a statement setting out the principles to be followed in determining additional payment due in respect of qualifying revenue.
- A2.2 For further information on the computation of qualifying revenue, please see the [statement published in October 2006](#) and currently in force.