Review of current funding restrictions for community radio **IA No:** DCMS 1814 **Lead department or agency:** Department for Culture, Media and Sport **Other departments or agencies:** N/A	Impact Assessment (IA) **Date: 04/08/2014** **Stage: final** **Source of intervention: Domestic** **Type of measure: Other** **Contact for enquiries**: Maria Loizou Maria.Loizou@culture.gsi.gov.uk

Summary: Intervention and Options

RPC: GREEN

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present**	**Net cost to business per year**	**In scope of One-In, Two-Out?**	**Measure qualifies as**
			Yes	Zero net cost

What is the problem under consideration? Why is government intervention necessary?

Community radio is regulated under the Community Radio Order 2004 and Community Radio (Amendment) Order 2010. This legislation sets out the framework for the licencing of community radio and includes strict limits on the income community radio stations can generate from local advertising and sponsorship that are set and enforced by Ofcom. Ofcom has no discretion to modify the rules. The restrictions were intended to ensure that community stations were operated by not for profit organisations for social gain and to protect small independent commercial radio stations from unfair competition. The current requirements are having a negative impact on the financial sustainability of the community radio sector.

What are the policy objectives and the intended effects?

Since its creation in 2005, community radio has become an integral part of the modern radio landscape - supporting local news and information and promoting localness and community cohesion. The policy objective is to balance the desirability of reducing the financial restrictions on stations with the need to maintain the character of community radio and protect the interests of small commercial radio stations. A relaxation of requirements on advertising and sponsorship will give community radio stations more scope to develop revenues and improve their financial viability. Allowing licences to be extended for one further period of 5 years will give much needed stability to established and thriving community stations.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1. Do Nothing - This would not address the issue identified
2. Modest change - (i) provide Ofcom with power to remove the absolute restriction on advertising and sponsorship where the local commercial station has rationalised local production (ii) providing all community stations with a disregard of up to £15,000 and where applicable before applying the 50% rule on advertising and sponsorship and (iii) allow Ofcom to extend Community Radio licences for a third 5 year term.
3. More radical change - (i) remove the absolute rule and (ii) allow 60% of income to be funded by advertising and sponsorship
4. Full deregulation - Not considered as it would turn community radio into commercial radio undermining wider policy goals. Option 2 is the prefered option.

Will the policy be reviewed? It **will not** be reviewed. **If applicable, set review date: N/A**

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** **N/A**	**Non-traded:** **N/A**	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Ed Vaizey Date: 11/11/14

Summary: Analysis & Evidence

Policy Option 1

Review of current funding restrictions for community radio

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant	Total Cost (Present Value)
Low				N/A
High				N/A
Best Estimate				N/A

Description and scale of key monetised costs by 'main affected groups'

This is a small-scale deregulatory policy affecting a very small number of not-for-profit organisations giving them more scope to increase finance where necessary. No additional costs are being imposed although those stations that choose to take up the opportunity will face a small administrative burden in applying for this right. This administrative cost will be minimal and will only apply to stations that are actively looking to benefit from the deregulation.

Other key non-monetised costs by 'main affected groups'

There may be an increase in competition for advertisers between commercial radio stations particularly stations operating in small advertising markets and community stations taking advantage from the deregulation. As a result some small commercial radio stations may see an increase in competition for advertising revenue though in most cases community stations will want to use the greater freedom to develop sponsorship income from local businesses rather than competing for advertising. Any effects here will be a transfer between businesses rather than a net cost to business.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low				N/A
High				N/A
Best Estimate				N/A

Description and scale of key monetised benefits by 'main affected groups'

Community radio businesses will benefit through this deregulation as they will be able to raise greater advertising/sponsorship revenue. This will give community radio stations that have struggled with declining revenues in recent years more scope to develop alternative income streams and stay operational, ensuring the social value they deliver to communities can continue.

In addition, local businesses previously unable to market themselves on radio may now be able to afford to advertise on/sponsor local community radio due to possible cheaper rates, and could therefore benefit indirectly through increased profits and revenue due to increased publicity of their business.

Other key non-monetised benefits by 'main affected groups'

N/A

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%

stations
There is a potential risk that the community radio stations could increase their reliance on advertising, hence losing their quality and distinctiveness (even though the proposal does not involve cutting the level of grants) and reducing the social benefits they create. However, after conducting a literature search we found no existing evidence to suggest this is a significant risk or previous examples where this problem has occurred. There are a number of regulatory mechanisms which help to secure the unique nature of community radio and these will continue to operate. Most importantly each station has specific 'key commitments' which form part of its licence, and these are monitored on an annual basis and on an ad hoc basis by Ofcom. The funding restrictions are also part of the wider intervention to ensure that community radio stations don't become a route to commercialisation.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of	Measure
Costs:	**Benefits:**	**Net: 0**	Yes	Zero Net Cost

Evidence Base (for summary sheets)

Background

Community radio stations are run by not-for-profit organisations to provide social gain for the communities they serve. The Community Radio Order 2004 and Community Radio (Amendment) Order 2010 establishes the regulatory framework and powers under which Ofcom issues licenses to community radio and ensures compliance with requirements. These regulations remain important:

- community radio operates using either MW or VHF frequencies adjacent to frequencies also used by the BBC and commercial radio; this means that community radio needs to be licenced alongside other radio services;

- community radio operates as a distinct part of the radio sector; the regulations enable Ofcom to ensure that the characteristics of community radio are provided by not for profit entities and deliver a wider social gain for the communities they serve are maintained.

The first community radio stations were launched in the UK in 2005 and since then the sector has continued to grow. Over 270 stations have now been licensed, of which 211 are currently on air. To date, 33 stations licensed by Ofcom have handed their licence back, or been revoked, of which 14 never managed to launch on-air services. In many cases problems in securing sufficient funding to cover essential costs was cited as the main reason for handing a licence back

Whilst demand for community radio licences remains high, many established stations have struggled to build a long-term sustainable business model and with the average income declining year on year since 2007 this is due in part to a decrease in available support from local authorities and other public bodies. The relaxation of the funding restrictions and extensions to licences will allow stations more flexibility in terms of generating income providing greater scope for successful community stations to remain financially viable in the medium to long-term.

Rational for intervention

The current legislation restricts community radio stations from generating any income from advertising and sponsorship where it operates in an area that overlaps with a commercial radio licence whose coverage area includes 150,000 adults or fewer. This is known as the absolute rule. According to Ofcom, 19 community stations are currently affected. These stations are facing the most difficulties in covering basic operating costs and some have advised DCMS and Ofcom that they face a significant risk of closure or a need to make substantial cutbacks in hours they broadcast.

The current legislation also prevents stations not subject to the absolute rule from raising more than 50% of income through on air advertising and sponsorship. Whilst most community radio stations recognise that there should continue to be a limit, most believe the 50% rule is too low and prevents stations from developing new income streams to address the sustained decline in grant income (from public bodies) since 2008.

Finally, with some community radio licences due to expire in 2015 (*the first community radio licences licenced in 2005 and renewed for one time only in 2010*) there is a need to consider whether licences should be allowed to be extended for a further term of five years and if so for what additional period licences should be extended for.

In the DCMS review of the media and telecommunications sector, '*Connectivity, Content and Consumers: Britain's digital platform for growth'*, published on 30 July 2013, the Government announced that it would consult on possible changes the current funding restrictions for community radio.

The consultation opened on 13 February 2014 and closed on 23 April receiving just over 100 responses. The consultation was primarily aimed at community and commercial radio operators, stakeholders and others who have an interest in the radio sector: - Community Media Association – key representative member body for community radio, Radio Centre – key representative member body for commercial radio, and Ofcom – the regulatory and licencing body.

The consultation document set out the reasons behind the widening of Ofcom's powers so that the community radio sector will be better placed to secure financial stability and longevity for the benefit of its listeners and volunteers. The consultation was launched electronically on GOV.UK website.

After careful consideration of all the responses to the consultation, where much support was echoed for the proposed changes we have concluded that we should proceed with the proposals noted below. We will now work with our stakeholders as matters are taken forward.

Policy objective

Community Radio has established itself as an important part of the UK's radio landscape and the growth of community radio in Britain has parallels with developments in other countries. Community radio delivers social value both to the listeners by giving them a choice of local content or content relevant to their communities (whether an ethnic community, the armed forces services or students) and helping to support volunteering and local training. The Government wants to see community radio continuing to grow both in terms of the number of stations broadcasting and by strengthening the financial viability of existing stations.

However, whilst demand for community radio licences remains strong, there is clear evidence that current restrictions on taking advertising and sponsorship are too onerous affecting the future viability of the sector.

Description of options considered (including do nothing)

Do nothing – Despite the changes made in 2010, DCMS and Ofcom have continued to receive representations from the sector reporting difficulties in accessing grant funding. This is supported by Ofcom's own market analysis which shows decline in the sector's revenue – see below - between 2008 and 2012. Median income (the value at the mid-point in the distribution of incomes) now stands at £35,250 per year, a 13.1% fall since 2011.

Income	2008[1]	2009	2010	2011	2012
Average (mean) income	**£84,000**	**£75,500 (-10.2%**	**£65,750 (-12.9%)**	**£60.250 (-8.3%)**	**£57,000 (-5.4%)**
Median income	**£53.750**	**£46.750 (-15.0%)**	**£42,000 (-7.14%)**	**£40,500 (-4.8%)**	**£35,250 (-13.1%)**
Ofcom analysis of community broadcasters' returns – Communications Market Review **Note 1. The number of services eligible to submit financial reports changes each year, so each annual set of figures is not directly comparable across calendar years. For example, the figures for 2011 are based on reports from 176 licensees; in 2012 from 190 licensees.**					

With no de-regulation, the community radio sector may contract in size with more stations at risk of closure unless new revenue sources can be found at both a local and national level.

Partial deregulation –

This would involve a modest package of changes giving more flexibility to community stations within the structure of existing rules. The elements would include;

Income disregard – this would involve retaining the current 50% level limit and introducing a disregard for all community radio stations regardless of size including stations where the absolute rules applies. This disregard would be applied before the operation of the usual 50% restriction for advertising and sponsorship. We have looked at the appropriate level and consider that setting the disregard at £15,000 per annum would be appropriate. Introducing an income disregard would disproportionally benefit smaller community stations with income below £60,000. The disregard level to represent approximately 25% of the current mean expenditure and mean revenue of around £58,000-£60,000 for 2011-2012

Changes to advertising and sponsorships levels - For community radio stations still subject to the absolute rule, this would involve either a removal entirely of the restriction or a relaxation. Having considered the impact on small commercial stations, we believe the rule should be retained (subject to the £15,000 per year disregard set out above). However, we believe that an exception should be made in cases where the community station operates in an area where the commercial radio station has taken advantage of the flexibility granted by the Digital Economy Act 2010 to share premises and deliver local content from a regional or national centre. In such cases, the purpose of the safeguard, to protect a small commercial station from competition from a new community station is no longer needed and that the community radio licensee should be able to seek a licence amendment from Ofcom. The community station will need to apply to Ofcom for a relaxation of the absolute rule.

Licence extension – To extend community radio licence term from the current two periods for a further period of up to five years. The main argument in support for a further five years is that it will help support established community stations and give them the security to develop in the run up to a future digital switchover. Extending licence is primarily on the basis that an extra term will allow for community radio to establish itself financially and for the station to build its group of volunteers. Without this change licences will cease operating putting an end to the benefit provided to listeners and volunteers.

Where a licence is to be extended this will be done when Ofcom is satisfied the community radio station's current licencing conditions and commitments, made in its original and any subsequent application, continue to be met.

Full deregulation – This option is not for consideration here, nor covered in the recent community radio consultation. The framework for the community radio sector was constructed to ensure the sector remains distinct from the commercial sector and remains so.

Risks and assumptions - There is a clear divergence of views to the changes covered in this Impact Assessment. Community radio broadly supports moves towards a further deregulation of funding restrictions, though one or two community stations raised concerns that growing commercialisation might have on the sector in the longer-term. All responses received from commercial radio were opposed to any further relaxations on the ground that any changes here could impact on their advertising revenues. Radio Centre, in particular was strongly opposed in particular highlighting the lack of evidence about how further changes might impact on the sector. DCMS will look to commission an evaluation of the impact of community radio on commercial radio subject to budget being found, this is included as part of the 2015/16 DCMS research programme, in order to inform future policy.

Some small commercial stations may see increased pressure on advertising revenue as a result of an increase in competition for advertisers between existing small commercial radio stations and community stations that benefit from the deregulation. Revenues for small commercial stations are also affected by changes to commercial radio markets and from competition from on-line audio sites. Given the small size of community radio advertising and sponsorship as a proportion of total commercial radio income, around £2m per year of 0.8% of the total income from commercial radio, we do not expect there to be a significant impact from the change. There will continue to be restrictions on community radio in order to minimise these effects.

Direct costs and benefits to business calculations

Costs

Given the deregulatory nature and small-scale of this policy, it is likely that the costs to community radio will be zero. No additional costs are being imposed although those stations that choose to take up the opportunity will face a small administrative burden in applying for this right. This administrative cost will be minimal and will only apply to stations that are actively looking to benefit from the deregulation. The aim of this policy is to make the paper-work as least time consuming as possible, in order to minimise the administrative burden. We don't see this impact having a significant effect on the local community radio stations.

The one potential cost highlighted in the consultation responses is to those small commercial radio stations in an area where there is overlap with a community radio station. The potential of displacement of advertising and sponsorship from the commercial radios to the community radio is seen as a threat to the profits and jobs of the small commercial radio station if a community radio is able to increase their advertising share. This is a transfer between businesses rather than a net cost to business.

DCMS has approached the industry body for commercial radio, Radio Centre, to gain a better understanding of the relevant data or figures in an attempt to quantify any impacts in more detail; however no information or evidence was submitted to support the consultation. Given the lack of available data and the difficulty of carrying out research to disaggregate the impact of community stations from other market changes, it has not been possible to quantify the scale of this transfer given the small scale nature of this intervention it has been considered disproportionate to commission further work at this stage.

As again, given the deregulatory nature and small-scale of this policy, with only a small number of radio businesses being affected by this legislation, it is highly unlikely the financial impact of this policy will be negative. In addition, several restrictions on community radio will remain in place to minimise any impact on the commercial sector.

Benefits

These benefits are indirect and will result from increased freedom for the community sector rather than changes directly mandated by changes to legislation. These impacts are therefore difficult to quantify as they depend on the number of community stations taking advantage of the changes and the extent to which these changes result in further interest in taking up community radio licences.

Although the quality and lack of data available makes it very difficult to directly quantify the costs and benefits of legislation we can illustrate the need for the de-regulation, showing how increased income through more advertising opportunities can be beneficial to community radio. Using Ofcom's figures from the Communication Market Report 2012 and the Community radio annual report it can be shown which income strands produce the most revenue.

Table 2

Community radio average income, by source		
2012	**Income**	**% total income**
On-air advertising	**£16,384**	**29%**
Grants	**£16,712**	**29%**
SLAs	**£4,246**	**7%**
Donations	**£8,263**	**15%**
Other	**£11,432**	**20%**
TOTAL	**£57,037**	

Table 2 shows that the most important and largest channels of total income for the sector have remained unchanged: grants (29%) and on-air advertising and sponsorship (29%) in 2012. This is consistent with findings in previous reporting periods. Table 3, below, however also shows that total income of community radio is declining over time, including the amount of grants and on-air advertising revenue. With each income type (SLAs exception) declining every year, to avoid community radio stations having to give up their licenses due to lack of income, one or more of these income strands needs to be increased. Note: The figures in table 2 and table 3 were not comparable due to the data coming from different sources.

The proposed legislation will introduce an income disregard of up to £15,000, allowing community radio stations to increase their revenue and hence increase total income, generating the necessary finances to cover operating costs and continue to broadcast.

Table 3 - Average income community radio

Figure 13 Year-on-year breakdown of income: 2010/11 compared to 2009/10

Income type	2010/11 *(124 stations)*		2009/10 *(125 stations)*	
	Totals	**Average**	**Totals**	**Average**
Total income	£8,759,779	£70,643 ↓	£9,306,190	£74,450
On-air advertising and sponsorship (combined)	£1,775,008	£14,315 ↓	£2,033,411	£16,267
Grants	£3,176,840	£25,620 ↓	£3,258,915	£26,071
SLAs	£1,040,155	£ 8,388 ↑	£ 894,767	£ 7,158
Donations	£1,177,174	£ 9,493 ↓	£1,288,295	£10,306
All other income *	£1,590,602	£12,827 ↓	£1,830,802	£14,646

** All other income includes revenue from off-air advertising and sponsorship, fundraising and events, education and training, membership schemes, broadcast access fees and other income streams.*

Response to RPC (June 2013) Comments

Impacts on commercial radio stations – "The RTA says the 'changes may impact on smaller radio stations which may have to compete more strongly for local advertising". The final stage IA should provide a more detailed assessment of the likely impacts on commercial radio.

For small community radio stations restricted from taking on air advertising or sponsorship we will only look to remove these restrictions where it can be shown that a corresponding commercial station is benefiting from shared programming cost following the introduction of the Digital Economy Act 2010. The onus will rest on the community radio station to show Ofcom where such savings are made.

Whilst no research/evidence is available to show what the impact small community radio has on advertising and sponsorship levels for commercial radio, and none was presented to DCMS during the community radio consultation, DCMS nonetheless recognises the concerns raised by commercial radio about further relaxations to these areas. Radio Centre in particular highlighting the lack of evidence about how further changes might impact.

DCMS believes that the modest package of deregulatory changes together with the continuation of limits on commercial funding and retention of the absolute rule will minimise any adverse impacts on smaller commercial radio stations. DCMS recognises that there is a need to evaluation the progress made by community radio generally since its introduction in 2005 and to assess the complex relationships with commercial radio. DCMS will, subject to budget being found, commission this research as part of the 2015/16 DCMS research programme.

Impacts on community radio – The RTA sets out that "the consultation will explore the degree to which restrictions need to remain to ensure that the distinctive characteristics of community radio as a whole are maintained". In light of the purpose and objectives of community radio, the final stage IA should clearly explore the risks to, and potential impacts on, the quality and distinctiveness of community radio as a result of any increased reliance on advertising.

Community Radio station licences are issued for a number of reasons including that the proposed service is a local service provided primarily for the good of members of the public, or of particular communities, and in order to deliver social gain, rather than primarily for commercial reasons or for the financial or other material gain of the individuals involved in providing the service.

The underlying principal of applying funding restrictions to community radio is two-fold. First, as a mechanism to limit the commercialisaton of the sector and as a result secure the delivery of social gain. Secondly, to provide an appropriate level of protection to existing small commercial radio stations at a time when the impact of community radio stations could not be quanitified. It is for this reason that the Government committed in 2010 to keep the sector under review.

As part of the wider communication review by DCMS in partnership with the Community Media Association and Ofcom a number of workshops were held on how to secure the delivery of social gain given a reduction in available grants. The outcome of the workshop was that the delivery of social benefit is to remain a core and fundmental objective for stations and the sector as a whole.

During the consultation on community radio whilst there was strong support at 63% for a relaxation of the current 50% restriction for income generated through on-air advertising and sponsorship again it was made clear that there was no wish for any change to the licence requirement of providing a 'social gain/benefit' to the community it operates in or for.

The proposals being put forward in this IA do not seek to make any changes to the characteristics of a community radio service as set out in the Community Radio Order 2004, as amended by the Community Radio (Amendment) Order 2010.

Rationale for intervention – The supporting evidence in the RTA suggests that there are already existing variations in the licence conditions set by Ofcom, with stations currently able to generate different amounts of revenue from on air advertising. The final stage IA would benefit from providing additional information to describe why such existing flexibilities are insufficient to achieve the policy objectives.

The supporting evidence attached to the RTA said the consultation on community radio would cover the option to relax restrictions on stations taking local advertising – normally set at 50% of annual income but in some cases this to be set higher.

The community radio consultation asked the question about relaxing the restriction to allow for an increase beyond the current 50%. The responses whilst supporting an increase did not provide a clear view to what this increase should be. As a way of providing assistance to the entire sector (except for those small stations where the restrictions will remain) the introduction of a cross the board earnings disregard of up £15,000, is considered much easier operationally for Ofcom to implement. The advertising and sponsorship clause restricting the income attributable to either one of, or a combination of advertisement and sponsorship will continue, with the only change that the 50% rule applies once the disregard income level has been reached.

Wider impacts

Local businesses situated where the small community radio stations have their restrictions removed on advertising and sponsorship would in theory have more scope to advertise on/sponsor local community radio, therefore could benefit indirectly through increased profits and revenue due to increased publicity of their business.

Summary

Overall the policy objective is to provide the conditions through legislative change that will improve the circumstances that Community Radio operate within by lifting the restrictions on advertising and sponsorship for some stations, where applicable, and by increasing licence terms up to a further 5 years.

The benefits will be experienced by the small community radio stations which are affected by this legislative change and will have greater flexibility to raise their amounts of finance and investment through increased advertising and sponsorship.

Due to the small-scale and de-regulatory nature of this policy there are no expected significant costs in the implementation of this legislation although it has not been possible to quantify the expected benefits or costs due to the poor availability of data and figures.

DCMS hopes to be able to commission research on the impact on commercial radio of further changes to the funding limit as part of an evaluation of community radio, and, subject to budget being found, to include this project as part of the 2015/16 DCMS research programme

Additional information – to address RPC comments

Comment 1 - *The IA would be improved by providing an indicative estimate of this administrative cost from applying for licence variation.*

Currently Ofcom do not charge for licence variations to community radio licences. These are currently done when extending a licence, when a change to key commitment is agreed. However, where stations will want to take advantage of new conditions a small cost would be incurred by a station to meet Ofcom's administrative and resource costs - to cover application form, guidance note, assessment and decision.

Comment 2 - *The published IA would benefit from including further information on the factors influencing the choice of this figure (£15,000 'income disregard') and some discussion of the potential implications of alternative levels.*

Having considered the representations made by community radio (which support a higher income disregard figure of around £20,000) and those made by commercial radio it was decided the come disregard should be set at a relatively low figure.

The £15,000 figure decided on equates to around 25% of the mean average income earned by community radio stations in 2013, as reported by Ofcom who collate statistics on an annual basis from across the radio sector.

Comment 3 - *The IA claims that commercial radio stations should not be significantly affected by the proposal. Given the unanimous opposition to the proposal from these businesses, the IA would be strengthened by a more detailed consideration of this potential impact.*

DCMS as noted above will look to commission research into the impact on commercial radio of further changes to the funding limit but in the meantime the income disregard figure will fall to Ofcom to review, on an annual basis, to ensure it retains its worth and benefit to the community radio sector. It should be noted it will be possible for the income disregard figure to be adjusted either up down or to remain unchanged.