Regulatory Policy Committee	**Validation of the One-in, Two-out Status and the Net Direct Impact on Business**
Validation Impact Assessment (IA)	Review of funding restrictions for community radio
Lead Department/Agency	Department for Culture, Media and Sport
IA Number	
Origin	Domestic
Expected date of implementation	April 2015 (SNR 9)
Date of Regulatory Triage Confirmation	20 June 2013
Date submitted to RPC	4 August 2014
Date of RPC Validation	28 August 2014
RPC reference	RPC13-FT-DCMS-1814(2)
Departmental Assessment	
One-in, Two-out status	**Zero Net Cost**
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	**N/A**
RPC assessment	**VALIDATED**

Summary RPC comments

The validation IA is fit for purpose. The IA responds to the comments in our regulatory triage confirmation of 20 June 2013. The IA provides sufficient evidence to support the Department's assessment that the proposal will be net beneficial, but that the uncertainty relating to some of the impacts means that is not appropriate to monetise the benefits.

The RPC is able to validate the 'One-in, Two-out' assessment of zero net cost.

Background (extracts from IA)

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.

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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."

RPC comments

The proposal is intended to provide community radio stations with greater flexibility to raise advertising and sponsorship revenue. This would relax two existing controls – by allowing exceptions to the 'absolute rule' (see below) and introducing a £15,000 disregard before other restrictions apply. The existing rules are intended to protect the nature and content of community radio from becoming too commercialised, and to avoid introducing significant additional pressures on commercial stations.

The 'absolute rule' currently prevents community radio stations with a significant overlap with smaller commercial stations from raising any advertising revenue. Where commercial stations have rationalised production to regional or national centres, community stations will be able to apply to Ofcom for a licence amendment. Where the absolute rule is relaxed, or does not apply, the proposal will also enable community stations to raise £15,000 each year before other existing restrictions will apply (such as not raising more than 50% of revenue through advertising).

The IA explains that the 211 community radio stations currently on the air would face some administration costs from applying for licence variations, but that they will be small and will only be incurred by community radio stations where they expect the benefits to outweigh the costs. The IA also sets out that, due to a lack of available data, it is not possible to monetise the expected benefits to radio stations. This appears to be reasonable. The IA would be improved by providing an indicative estimate of this administrative cost.

'Appropriate levels'. The IA states that the income disregard being set "*at £15,000 per annum would be appropriate*" (page 5). It does not, however, set out any explanation of why that level is considered the most appropriate. The published IA would benefit from including further information on the factors influencing the choice of this figure and some discussion of the potential implications of alternative levels.

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Impact on commercial radio stations. 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.

Overall, the Department assesses that there would be no net costs to community radio stations and that any costs to commercial radio stations from loss of advertising revenue would be indirect and be matched by a corresponding gain to community radio stations. This leads to the Department's assessment of this proposal being zero net cost. This appears to be a reasonable assessment.

Signed		**Michael Gibbons,** Chairman

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