

<b>Title:</b> Satellite Filings <b>IA No:</b> RPC15-DCMS-2358  <b>RPC Reference No:</b> <b>Lead department or agency:</b> DCMS <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 19/10/2015			
	<b>Stage:</b> Final			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
	<b>Contact for enquiries:</b> trieca.huggins@culture.gov.uk 020721 6131			
<b>Summary: Intervention and Options</b>				<b>RPC Opinion:</b> GREEN

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
-£0.01m	-£0.01m	£0.001m	In scope	Qualifying provision

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

The International Telecommunications Union (ITU) coordinates the international use of satellites by allocating orbits to users. Firms that wish to file through the UK at the ITU must apply through Ofcom, and this has an associated cost. Ofcom does not currently have the statutory power to charge companies to manage their satellite filings with the ITU, despite the process costing Ofcom a substantive amount of money. As Ofcom is largely publicly funded, this represents an unintended public subsidy to the firms.

**What are the policy objectives and the intended effects?**

This measure seeks to allow Ofcom to charge cost-recovery to firms filing at the ITU through Ofcom. The aim is to rectify a deficit in Ofcom's budget, and remove the hidden subsidy from tax payers to satellite firms.

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

Two options were considered. Option 1 was to maintain Ofcom's duties as set out in the Communications Act 2003. This would mean they could not charge for satellite filings and would continue to subsidise satellite operators. Option 2 permits Ofcom to charge for satellite filing services on a cost recovery basis. Option 2 is preferred because it will enable Ofcom to recover costs and remove a hidden subsidy to satellite operators.

<b>Will the policy be reviewed?</b> It will not be reviewed. <b>If applicable, set review date:</b> Month/Year						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope?			<b>Micro</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b>		<b>Non-traded:</b>	

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

**Signed by the responsible Minister :**  **Date:** 21 April 2016

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Permit Ofcom to charge for satellite filing services on a cost recovery basis.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2014	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -£0.01

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	£1.2m	£10.5m

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

The cost of filing at the ITU has been calculated by Ofcom at £1.22m in 2013/14 in total for all firms. However, this is not in scope of OITO. There will also be a small administration cost, which is in scope OITO. This has been estimated using the standard cost model, and comes to £1,130 per year in total.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	£1.2m	£10.5m

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

The fees paid by satellite operators will be used by Ofcom to cover the costs of managing satellite filings on behalf of UK operators with the ITU. They represent a transfer from satellite operators to Ofcom to remove a hidden subsidy, and therefore a saving to Government. This exactly balances the cost of £1.22m above. These benefits are outside of the scope of OITO methodology.

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

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

Costs have been calculated by Ofcom based on their published cost allocation methodology. It is assumed that the number of firms filing through Ofcom will remain stable at around 20 over the next 10 years, which Ofcom have confirmed is their best estimate. Administration cost is estimated using the standard cost model.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: £0.001	Benefits: 0	Net: -£0.001	
			£0.001m

## Problem under consideration and rationale for intervention:

The International Telecommunications Union (ITU) coordinates the international use of satellites by allocating orbits to users. Satellite operators draw up technical specifications of their use to be filed at the ITU. Firms that wish to file at the ITU must go through a representative of a Government; for the UK, this falls to Ofcom. Ofcom will therefore file at the ITU on behalf of satellite operators, and must therefore pay the associated costs. Currently, Ofcom cannot charge satellite operators for this service, not even on a cost recovery basis. Not only does this create a large cost to Ofcom, and consequently, as Ofcom is largely taxpayer funded, a cost to the public, but it represents a hidden subsidy, where the Government, via Ofcom, is subsidising satellite operators wishing to file with the ITU.

The Government would like to introduce new measures that allow Ofcom to recover the costs of filing from the satellite operators. This would represent a transfer of costs from satellite operators to Ofcom and remove a hidden subsidy.

## Policy Objective

This measure has one main policy objective. To allow Ofcom to fully recover the cost of allowing UK operators to file at the ITU through Ofcom. Consequently, it removes an element of subsidy paid by UK tax payers for satellite providers inherent in the current legislation, and delivers a cost saving to Ofcom, and, consequently, the public purse.

## Description of options considered (including do nothing):

The Government has considered two options. Option 1 is the do nothing option, which involves no change to the current situation. Option 2 is the preferred option, which proposes to give Ofcom the power to charge firms, on a cost recovery basis, for filing on their behalf at the ITU.

### **Option 1 - Do Nothing.**

Option 1 is the “Do Nothing” option, and represents no change from the current legislative framework. Companies filing at the ITU through the UK will continue to be subsidised by UK taxpayers, and Ofcom will continue to bear the costs of filing.

### **Option 2 - Provide Ofcom powers to charge fees for satellite filings with the International Telecommunications Union.**

The International Telecommunications Union (ITU) coordinates the international use of satellites by allocating orbits to users. Satellite operators draw up technical specifications of their use of satellites, which are filed at the ITU on their behalf by Ofcom. This is under a duty arising from Secretary of State Directions on Ofcom to represent the UK government in the ITU. The Communications Act 2003 has no provision for Ofcom to be able to charge for this activity. Hence, since 2003, satellite operators based both in the UK and overseas have been subsidised for this activity at the expense of the UK taxpayer. By contrast, other countries commonly charge for this e.g. France at about €20,000 (£15,000) per filing, Australia at about A\$15,000 (£8,000) per filing plus any additional cost recovery charges, and the USA in the region of US\$150,000 (£100,000), plus the payment of an initial bond (worth up to \$5m) per filing.

This measure proposes to remove this subsidy to satellite operators by permitting Ofcom to charge for filing at the ITU, although purely on a cost-recovery basis. This will mean that the taxpayer will no longer subsidise these applications via grant in aid to Ofcom.

There are currently 21 companies filing through the UK, which is the number we use as the basis for our cost benefit analysis below. Ofcom have suggested that there should continue to be around 20 satellite operators filing in the UK and the stability of the cost over the last three years (set out below) helps to validate this assumption.

It is possible that, as a result of introducing charges, some satellite providers may choose to employ a regulator other than Ofcom to perform filing on their behalf at the ITU. However, the additional cost to business from the filing fees will form a relatively small proportion of the total costs of using the spectrum involved. In addition, many other jurisdictions already charge fees, some of which are considerably higher than the proposed fees in the UK, but it should also be noted that this activity requires specific skills from the regulator's side that are available in only a limited number of countries. It is therefore considered unlikely that this policy will divert filing activities to other jurisdictions.

## Monetised and non-monetised costs and benefits of each option (including administrative burden):

Ofcom is largely funded by the taxpayer, through grant in aid contributions, with additional income from broadcasting licence, administration and application fees from industry. Any additional income from fees would be a benefit to Ofcom which could be used to reduce public subsidy and cost to Government. Costs and benefits set out in this Impact Assessment are estimates based on Ofcom's experience of operating the regulatory regime.

### **Option 1**

Option 1 implies zero changes to costs and revenues, and therefore has an NPV of 0.

### **Option 2**

The estimates of costs and revenues of recovering the fees have been prepared by Ofcom for the purposes of this IA. The administration costs have been estimated by the Government.

In 2011-12 Ofcom developed a cost allocation methodology in order to refine their understanding of spectrum management costs. The approach considers both direct and indirect costs and is claimed to be robust and transparent. A consultation on the approach can be found at <http://stakeholders.ofcom.org.uk/consultations/cbfframework/?a=0>.

The framework is based on three principles:

1. Provide appropriate transparency on spectrum costs.
2. Ensure the cost attribution to licence classes is robust, proportionate, fair and repeatable.
3. Create a fee structure which reflects a reasonable and consistent contribution to cost.

And followed three stages:

- 1: Analyse our spectrum management costs, including identifying appropriate categories of cost.
- 2: Define a methodology to attribute relevant costs to all licence classes (the cost allocation methodology).
- 3: Develop a process for setting cost based fees.

Using this approach, Ofcom estimated the cost of satellite filings in 2013/14 was £1.22m. As this policy allows Ofcom to charge full cost recovery to businesses filing in the UK, there is a cost to business that is equal to the figure estimated above, £1.22m. This is the total cost to all firms who file through Ofcom, not the cost to each

firm of filing in the UK. There is not deemed to be any direct benefits to business of this policy. As suggested earlier, we do not expect the change in policy to incentivise firms to file outside the UK, so we assume that the number of firms filing in the UK remains at 21 and this figure of £1.22m remains.

Ofcom have estimated these costs for 2011/12 and 2012/13 as well, which are given for reference below.

	2011/12	2012/13	2013/14
<b>Satellite Filings Cost</b>	£1.17m	£1.07m	£1.22m

This consistency of costs suggests not only that the cost of an individual filing is steady, but that the number of firms filing through the UK does not fluctuate significantly. Ofcom have also informed us that they expect the number of firms filing to remain stable at around 20 for the foreseeable future and we have therefore taken the most recent cost of £1.22m in 2013/14 as an expected level of annual cost for the next 10 years.

In order to file through the UK, companies must have at least a presence in the UK, if not their headquarters. Therefore, all of the 21 companies are in scope of this analysis, and any fees they pay will represent a transfer from UK businesses to Ofcom.

Although we have quantified this cost for completeness, fees and charges are not within scope of OITO, and therefore *have not been counted* in OITO or the EANCB.

#### *Administration and familiarisation cost.*

There is likely to be a small administration cost imposed on firms from the action of paying the fine, which is in scope of OITO. This also includes familiarisation costs of the new system which are expected to be minimal. We have estimated this using the OECD standard cost model approach. We estimate the total effort will equate to around two hours' work for an accountant. The average hourly wage in the UK for an accountant is £20.69 per hour (<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337429> Table 14.5a, code 2421). Using the standard cost model, we include an uplift of 30% to account for overheads (<http://www.oecd.org/gov/regulatory-policy/34227698.pdf>). Therefore, the cost to business will be  $£20.69 * 2 + 30\% = £53.80$  per firm. There are 21 firms in scope of the administration cost meaning the total cost to all businesses is £1,130. This cost will be an ongoing, annual cost.

## Rationale to justify level of analysis (proportionality):

The approach adopted for the preparation of these estimates was to enlist the assistance of Ofcom. The figures given by Ofcom are based on a robust cost allocation methodology. As both the market leading experts, and the party with direct experience of the cost of filing, Ofcom are in the best position to make informed estimates of the cost of the proposal. Ofcom have also provided detailed information on the size of businesses operating in the sector to inform the SAMBA below.

## Risk and assumptions

The analysis assumes that the number of firms filing through the UK will remain at around 20 for the foreseeable future.

## Direct costs and benefits to business calculation (OITO)

The cost estimation of the preferred option is based on the actual fees and charges payable to Ofcom in order to file to the ITU through Ofcom, and the administration costs of processing this payment. According to Better Regulation guidelines, fees and charges are out of scope of OITO methodology. Therefore, when calculating the EANCB of this measure, only the administration costs have been counted.

Administration costs have been estimated as £1,130 per year. Over a ten year period, this equates to £11,300. This is inputted into the Impact Assessment Calculator, which provides a discounted EANCB, in 2009 prices, of less than £0.001m. These costs directly affect businesses and this measure therefore counts as an IN.

## Small and Micro-Business Assessment (SAMBA)

The proposed fee will only be charged to firms who are filing satellite usage through the International Telecommunications Union. The fee would be applied both to established firms and smaller start-up firms who are new to the sector. To understand the number of small businesses that would be affected the Department asked Ofcom to provide information on the firms that currently file with the ITU through Ofcom, and their relative employee count. The table below was produced:

Company	Number of employees in the UK	Number of employees globally	Notes
DIRECTV UK	Data not publicly available	32150	-
Echostar	None as of 31/12/13	4400	-
Intelsat	37	1079	-
SES Satellite (Gibraltar) Limited	Data not publicly available	1237	-
Viasat UK	63	Approx 3400	-
Inmarsat	Data not publicly available	1600	-
Paradigm	1700	138622 (Airbus Group)	-
O3B	Data not publicly available	Between 50 and 200	Estimates of number of employees based on data publicly available on the Internet
Avanti Plc	178	178	-
SSTL – Surrey Satellite Technology Ltd	More than 500	More than 500	-
Mansat	Data not publicly available	Data not publicly available	It benefits from a contract that gives the company exclusivity for sending "satellite filings" on behalf of the IoM's government
EA 172 UK Ltd	Data not publicly available	1011	This company is filed as "dormant" at Company House. It is fully owned by the Paris-headquartered satellite operator "Eutelsat S.A."
Iridium Design Ltd	Data not publicly available	233	In the past they also filed through Access Partnership LLC
WorldVu/OneWeb	30	30	-

Source: Ofcom (2015)

A small or micro business is defined by the Better Regulation Executive as one with fewer the 50 employees. As this table shows, only one of the firms that currently file through Ofcom, and are therefore in scope of this regulation, has fewer than 50 employees (WorldVu/OneWeb). As with the total number of firms, we have assumed the number of small firms will remain at the same level for the foreseeable future.

The main cost faced by businesses will be the fee paid for filing. Taking the total cost of filing in 2013/14 as £1.22m and dividing by the 21 firms in scope produces an annual cost per firm of £58,000. However, Ofcom have told the Department that the fees and charges are *per filing*, with some firms having more than one filing through

Ofcom. They have also said that larger firms tend to have more filings than smaller firms, which makes intuitive sense as larger firms are likely to manage more satellites than small firms. Thus, while the *average* cost to each firm is £58,000, the split of the £1.22m is actually likely to change proportionately with the size of the firm. Consequently, the cost to the one small/micro firm in scope of this SAMBA is likely to be significantly less than £58,000. As explained above this cost is also out of scope of OITO and the EANCB.

As stated above the administrative cost of paying for satellite filings has been estimated at just £53.80 per firm per year. Since there is only one small or micro business in scope, we can estimate the total annual impact of this regulation on small and micro businesses as just £54. This cost is within scope of OITO and EANCB.

Although there is a small cost to the single small/micro business in scope of the regulation, the department is not considering an exemption for small firms. Exempting smaller firms would undermine the principles of the policy, which are that the companies filing and therefore benefiting should pay for the costs of filing and not be publicly subsidised. Furthermore, exempting some companies and not others would create a competitive distortion and incentivise behaviour such as creating smaller spin-off companies purely for filing purposes.

## Summary, preferred option and description of implementation plan:

Option 2 is the preferred option, to enable Ofcom to charge fees for satellite filings on a cost recovery basis.