***De Minimis* Assessment: Self-Certification Template**

Department for Digital, Culture Media & Sport

Title of regulatory proposal	Community Radio Order
Stage	Final
Lead Department/Agency	DCMS
Expected date of implementation	2025
Origin	Domestic
Date	
Lead Departmental Contact	Ian O'Neill ian.oneill@dcms.gov.uk Gillian Murtagh gillian.murtagh@dcms.gov.uk
Departmental Triage Assessment	Equivalent Annual Cost to Business (EANDCB: 2019 prices) = approx. -£18,000

Call in criteria checklist	
Significant distributional impacts (e.g. significant transfers between different businesses or sectors)	No
Disproportionate burdens on small businesses	No
Significant gross effects despite small net impacts	No
Significant wider social, environmental, financial, or economic impacts	No
Significant, novel, or contentious elements	No

SUMMARY

Rationale for government intervention
Community radio services are operated by not-for-profit organisations by design, that are required, as a condition of their licences, to deliver social gain for the communities they serve. The first community FM/AM broadcasting licences were issued in 2005 and 2006 and will start to expire from October 2025 onwards, with 33 due to expire in 2025 and 2026. Therefore, it is for the government to determine whether to extend the existing policy and renew these licences for a further period or to require Ofcom to re-advertise them, opening them up to competition from possible new entrants. The previous government carried out a consultation between 23 November 2023 and 31 January 2024. The consultation showed strong support for the option of renewing these licences given the significant costs that would be incurred across the industry should they be readvertised. We are therefore proposing to make an amendment to the Community Radio Order 2004, under the preferred option of extending these licences for a further ten-year period. We also sought views on the current restrictions on the capacity of community radio stations to raise money through advertising and sponsorship. It is for the government to determine whether the existing provisions relating to advertising revenue remain appropriate and we propose to make changes to relax the rules, whilst maintaining some restrictions on the five community stations that operate in the same areas as five small, independently operated commercial stations with small coverage areas.
Policy options *Options considered to **extend community radio licences*** **Option (0) Do nothing**: Make no change to the legislation, but instead allow licences to expire and be re-advertised by Ofcom in accordance with the legislation as it currently stands. **Option (1) Allow the renewal of licences for a further five year period** for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005. **Option (2) [preferred] Allow the renewal of licences for a further ten year period** for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005. **Option (3) Allow the renewal of licences in perpetuity** for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005.

*<u>Options considered to **change the 'fixed revenue allowance'** of community radio stations</u>*

Option (A): To make no changes to the 'fixed revenue allowance', meaning the maximum yearly allowance will remain at £15,000.

Option (B): To increase the 'fixed revenue allowance' by £10,000 (in line with CPI inflation), meaning the new maximum yearly allowance for **Type A** and **Type B** community radio stations would be £25,000.

Option (C) [preferred]: To remove all restrictions except those imposed by Ofcom, but increase the 'fixed revenue allowance' by £30,000 for the five remaining **Type A** community radio stations to £30,000.

*For definitions of **Type A** and **Type B** community radio stations, please see the 'Options considered' section in the main body.*

Summary of business impact / Rationale for DMA Rating

Under the preferred option, when compared to the do nothing option the main monetised benefit to business is the lower number of businesses having to purchase a new licence over the appraisal period and the cost savings to business from incumbent licence holders not having to take the time to reapply for a licence, or from Ofcom not having to evaluate bids as regularly. Based on market evidence, this exceeds the costs of renewing existing licences, which this legislation permits. The combined benefits for Option 2 and Option C are approximately £300,000 over the appraisal period (2025–2034).

The main monetised costs under the preferred options are familiarisation costs incurred by incumbent licence holders and Ofcom, as well as the loss in revenue for Ofcom from receiving fewer relicensing fees due to the number of incumbent licence holders forced to expire over the appraisal period being reduced to zero.

Under the preferred option, the range of community radio providers would be limited as new entrants would be unable to bid for licences. However, Ofcom has suggested that interest from prospective bidders in analogue community radio licences is low with them receiving around 15 'queries' per year from stakeholders wishing to acquire a licence.

The combined central EANDCB of Option 2 and Option C (the preferred options) is approximately -£18,000, which is significantly below the De Minimis threshold. The un-monetised costs are considered to either be indirect or of a lower magnitude than the monetised benefits and therefore have no impact on the DMA classification.

1.0 Policy Rationale

Policy background

1. The community radio sector has been firmly established within the UK's media landscape since the first services were launched following the Access Radio pilot scheme between 2002–2004. There are now nearly 320 Ofcom-licensed analogue stations broadcasting to communities across the country, with the emergence and growth of small-scale DAB (SSDAB) providing an option for even more stations to broadcast to localities across the UK.

2. As a result of improvements in national and local digital radio coverage between 2014–2018, investment by broadcasters in new digital services, and investment by vehicle manufacturers in fitting digital radios as standard in new cars, digital platforms are now used by 43 million adults (roughly 77% of the population) to access UK radio services every week[1].

3. Whilst FM/AM listening is declining owing to increased radio broadcasting online and on DAB, around 27% of weekly UK radio listening hours is still attributed to FM and AM stations, representing a significant proportion of UK radio listening. In April 2022, the government, in its response to the joint government / industry Digital Radio and Audio Review, confirmed that there will be a need for analogue radio in the UK until at least 2030, where it is forecasted to account for 12-14% of all radio listening.[2]

4. The first tranche of analogue community radio licences will begin to expire from October 2025, creating a need for the government to consider whether, and on what terms, community radio licences licences should be extended for. Up to this point, analogue community radio licences have been issued for an initial period of five years in accordance with the provisions of the Broadcasting Act 1990 and the Community Radio Order 2004, with subsequent Orders approved by Parliament giving Ofcom the power to extend these licences for a further five years on three occasions.

5. The current legislation therefore allowed community radio stations holding analogue licences to have their licences extended through amendments to the Community Radio Order 2004, in accordance with the provisions of Section 262 of the Communications Act 2003. Stations wanting a renewal needed to satisfy the existing statutory tests for community radio, as set out in s262(2) of the 2003 Act, namely that "the description is of services to be provided primarily for the good of members of the

[1] RAJAR – Q1 2024
https://www.rajar.co.uk/docs/2024_03/Q1%202024%20Chart%202%20Digital%20Listening.pdf
[2] Mediatique - Future Audio Consumption in the UK, December 2020; and Forecast of Audio Device Trends, June 2021

public or of a particular community, rather than for commercial reasons.”

6. Ofcom does not currently have powers to renew these licences for a further period, and so community radio stations wishing to continue broadcasting would need to reapply for their licences and potentially compete against other prospective operators, incurring potential costs and administrative burdens in the process.

Problem under consideration

7. Community radio stations operating in the UK require a licence from Ofcom. There are around 320 local community radio stations in the UK with analogue licences (AM or FM), with each station requiring its own specific licence from Ofcom issued for a particular geographic area and frequency.[3] These stations typically cover a small geographical area with coverage radius of between 5km–10km and are run on a not-for-profit basis. Some of these stations also hold a community digital sound programme (C-DSP) licence to broadcast on digital radio (DAB). C-DSP licences are not time limited, reflecting the wider availability of capacity to broadcast on DAB multiplexes.

8. Up to this point, analogue community radio licences have been issued for five-year periods, under licences issued under the Broadcasting Act 1990 as amended by the Community Radio Order 2004. Subsequent orders in 2010, 2015 and 2019[4] allowed stations to extend their licences by a further five years. The licences held by these analogue community radio stations will begin to expire from October 2025, meaning it is necessary to review the legislative framework for analogue community radio licensing to give incumbent licence holders and Ofcom clarity well in advance of this date.

9. The main advantage of opening analogue community licences to competition is that it may open up licences to new entrants and, through a competitive bidding process, lead to higher level commitments on services over and above those set by Ofcom for local services and locally made productions.

10. However, the main disadvantage of allowing licences to be re-advertised (i.e. the “do nothing”) – as set out by a majority of industry respondents – is the imposition of significant costs on the industry at what is a challenging time given the trifold sector-wide challenges of the transition from analogue to digital, the growth in new forms of online audio content and the severe financial impacts due to the challenges

[3] Community Radio Stations – Ofcom.

[4] The 5 year term was extended in 2010, 2015 and 2019 by the Community Radio (Amendment) Order 2010, the Community Radio (Amendment) Order 2015 and the Small-scale Radio Multiplex and Community Digital Radio Order 2019.

presented by the coronavirus pandemic to advertising revenue.[5]

11. The freedom of Ofcom to issue licences is limited by existing legislation, therefore intervention by Government is required to address the above problem which can only be done by changes to the Community Radio Order. Not acting would partially cause these inefficiencies in the radio market, an unintended consequence of the original policy.

12. It is also necessary to assess whether the existing provisions relating to advertising revenue remain appropriate. Since 2015, when the provisions were last reviewed, community radio stations have been able to raise a maximum of £15,000 per year from commercial sources. For stations operating in the locality of a small commercial station, where that small station has not taken advantage of provisions introduced into the Broadcasting Act 1990 by the Digital Economy Act 2010 relating to the networking of 'locally-made' programming, this is an absolute restriction. Community radio stations whose local commercial service has taken advantage of those provisions are allowed to take an additional level of income from advertising / sponsorship of up to 50% of their annual revenue above £15,000 from advertising, sponsorship or other commercial sources. These requirements are set by the Community Radio Order 2004, ensuring that government consideration is required to decide if the provisions relating to advertising remain appropriate.

13. The main advantage of relaxing advertising and sponsorship restrictions on community radio stations is to enable them to generate additional revenue through advertising and sponsorship, which in turn grants these stations greater scope to further develop their content and potentially provide an enhanced service to their communities. There are also benefits from reducing the administrative burden placed on stations to comply with regulations. However, in the event of relaxing restrictions, special attention must be paid to the effects of relaxing requirements on community radio stations that operate within the same local area as small commercial radio stations in order to minimise the potential impact on competition for local advertising revenues.

14. The main disadvantage of relaxing the advertising restrictions to continue without intervention is that the capacity of community radio stations is the potential effect on small commercial radio stations that overlap with community radio and the risk of undermining the ethos and essential qualities of community radio (i.e. being not-for-profit and providing social gain) and the benefits that flow from community radio's distinctiveness from commercial radio. As such, any relaxation of restrictions should consider the wider implications for these essential qualities.

[5] Radiocentre, Ad Revenues and Forecasts

Policy objective

15. To provide stability and certainty to community radio stations and the wider industry (including advertisers and investors).

16. To avoid existing stations having to incur unnecessary costs (such as re-application costs).

17. To ensure provisions for community radio stations are suitable across the radio sector, reflecting the interests of both commercial and community radio stations.

18. To ensure provisions for community radio stations are workable, limiting the administrative burden on licence holders.

Options considered

19. To achieve the policy objective, we consulted on two sets of options to consider in our analysis; one which considers for how long, if at all, community radio licences should be extended by. The other considers how much the 'fixed revenue allowance' should be increased by and includes the option of lifting all restrictions on how much commercial revenue community stations can raise. As a result, we will assess both sets of these options and draw our preferred option for each.

*Options considered to **extend community radio licences***

20. We have taken into account the feedback from industry including from community radio and commercial radio stations which suggested varying durations for licences to be extended by and believe we have captured this feedback in the options considered above. We have also taken account of the transition to digital and recent data from RAJAR. This shows a continued fall in FM radio listening, with a more pronounced fall in FM listening which now accounts for just 17% of total commercial radio listening hours. There is likely to be a natural end to analogue radio listening in the next decade, option 2 considers allowing all licences to be renewed for an additional 10 years to ensure all licences also run this far. For these reasons, it is the preferred option and provides the greatest benefits whilst keeping costs to business minimal, as shown by the analysis below.

21. Under the proposed options, licences would need to be renewed under the timescales outlined above. To prevent additional administrative burdens being put on stations who already have limited resources, the renewal process will not be exhaustive. Ofcom's role more generally however will ensure licence holders continue to provide a good service to listeners while meeting the requirements of being a community radio station. No licences would require re-application within the appraisal period under Option 3.

22. Below summarises the range of options we have considered for extending community radio licences. Whilst we consulted on options 1 and 2 together in the consultation, we have separated these out for the purposes of this assessment.

Option (0) Do nothing: Make no change to the legislation, but instead allow licences to expire and be re-advertised by Ofcom in accordance with the legislation as it currently stands.

Option (1) Allow the renewal of licences for a further <u>five year</u> period for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005.

Option (2) [preferred] Allow the renewal of licences for a further <u>ten year</u> period for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005.

Option (3) Allow the renewal of licences in <u>perpetuity</u> for licences entitled to a renewal under Paragraph 10A of the Community Radio Order 2005.

23. In terms of the duration of any licence renewals, the previous renewal was for an additional five years, on the basis that this would provide a degree of certainty to community radio stations and their listeners, minimise disruption and costs. However, we wanted to explore through the consultation other options given changes to the UK radio market since 2019 and in particular, the shift of commercial radio listening from analogue to digital.

<u>*Options considered to **change the 'fixed revenue allowance'** of community radio stations*</u>

24. For the purpose of this assessment, we have defined community radio stations as either **Type A** or **Type B** depending on which fixed revenue limits apply to them, as outlined in Ofcom's guidance. **Type A** and **Type B** stations are therefore defined as follows:

    Type A Community Radio Stations: Currently subject to a £15,000 'fixed revenue allowance' per financial year of the licensee. This applies to any community radio service where that service overlaps with any local commercial radio service serving a potential audience of no more than 150,000 persons who have attained the age of 15 years or older. According to Ofcom, 5 out of 316 community stations are in this category.

    Type B Community Radio Stations: Currently subject to a 'fixed revenue allowance' totalling £15,000 plus a proportion of the total relevant income (specified by Ofcom in the licence), but which must not exceed 50% of the total relevant income per financial year of the licensee. This applies to all other community radio services other than those which fits into the **Type A** criteria outlined above.

Option (A): To make no changes to the ‘fixed revenue allowance’, meaning the maximum yearly allowance will remain at £15,000.

Option (B): To increase the ‘fixed revenue allowance’ by £10,000 (in line with CPI inflation), meaning the new maximum yearly allowance for **Type A** and **Type B** community radio stations would be £25,000.

Option (C) [preferred]: To remove all restrictions except those imposed by Ofcom, but increase the ‘fixed revenue allowance’ by £30,000 for the five remaining **Type A** community radio stations to £30,000.

2.0 Cost and Benefits

25. In Sections 2.1 and 2.2, we have conducted a cost benefit analysis for options 0 to 3 and options A to C respectively.

26. These options would incur the following costs and benefits outlined in Tables 1 and 2, compared to the baseline, over a 10-year appraisal period. Whilst some of the options assessed extend licences beyond our appraisal period, we believe it to be suitable and proportional for the purposes of this assessment, given the ever-evolving nature of community radio and the radio industry more broadly and the potential switchover from analogue to digital beyond 2030.

Table 1: Monetised Cost and Benefit Summary for options considered to extend community radio licences (rounded to 2.s.f)

	Option 0 (do nothing)	**Option 1**	**Option 2 (preferred)**	**Option 3**
Costs				
Costs to incumbent licence holders				
Familiarisation costs to incumbent licence holders	0	£8,500	£8,500	£8,500
Costs to Ofcom				
Familiarisation costs to Ofcom	0	£1,700	£1,700	£1,700

Reduction in revenue for Ofcom	0	£36,000	£110,000	£110,000
Benefits				
Benefits to incumbent licence holders				
Cost saving from fewer licence holders preparing a bid	0	£28,000	£87,000	£87,000
Cost saving from fewer licence holders paying an application fee	0	£36,000	£110,000	£110,000
Benefits to Ofcom				
Licence renewal costs savings to Ofcom	0	£6800	£21,000	£21,000

Table 2: Monetised Cost and Benefit Summary for options considered to change the fixed revenue allowance for community radio stations (rounded to 2.s.f)

	Option A (do nothing)	**Option B**	**Option C (preferred)**
Costs			
Costs to incumbent licence holders			
Familiarisation costs to incumbent licence holders	0	£6400	£6400
Costs to Ofcom			
Familiarisation costs to Ofcom	0	£1700	£1700

27. The NPSV, Business NPV and EANDCB are then presented in Table 3, costs and benefits have been discounted and presented in 2024 prices, 2024 base year. The monetised costs and benefits estimated throughout are all identified as being first round, unavoidable, effects for these stakeholders. Cost and benefits to incumbent licence holders are identified to be direct impacts to business for the purpose of calculating the Business NPV and EANDCB below. Cost and benefits to Ofcom are

not identified as direct impacts to business, as Ofcom is a public body that regulates the UK's communications industries. As such cost and benefits to Ofcom have been excluded from the Business NPV and EANDCB calculation.

Table 3: NPSV, Business NPV and EANDCB of options presented in 2024 prices, 2024 base year (rounded to 2.s.f)

	NPSV	Business NPV	EANDCB
Options considered to extend community radio licences			
Option 0 (do nothing)	0	0	0
Option 1	£27,000	£60,000	-£7000
Option 2 (preferred)	£83,000	£160,000	-£19,000
Option 3	£83,000	£160,000	-£19,000
Options considered to change the fixed revenue allowance for community radio stations			
Option A (do nothing)	0	0	0
Option B	-£7800	-£6200	£720
Option C (preferred)	-£7800	-£6200	£720

28. Combining the preferred options, Option 2 and Option C, results in a Net Present Social Value of **£75,000**, a Business Net Present Value of **£155,000**, and an EANDCB of **-£18,000**.

2.1 Options considered to extend community radio licences

Option 0 - Do Nothing / Re-advertise licences (Baseline)

29. This option would mean that no government intervention is taken to allow community radio licences to be renewed by any additional period of time than that currently allowed. This would result in these licences expiring, causing them to be re-advertised by Ofcom to be bid on by incumbent licence holders and new market entrants. Under the counterfactual, licence holders and new market entrants would need to prepare an application to bid for a licence as well as pay an application fee to Ofcom. Ofcom would be required to re-advertise licences, review applications and then issue licences.This would require significant time and resource from applicants

and Ofcom.

30. Based on data from Ofcom, we estimate that all **316 stations** will need to either extend or reapply within the appraisal period (2025 – 2034). According to Ofcom, 45 of these licences are new and not yet on their database. These 45 licences have yet to use any of the three five year extensions that Ofcom currently have the power to give them as permitted under the Community Radio Order 2004, and thus these have been assumed to expire from 2035 onwards and have subsequently been omitted from this analysis as it is unlikely that these licences will need to be re-advertised within this appraisal period following them using their allotted three five-year extensions. The 316 licences currently in Ofcom's database are subsequently due to end and will need to be either extended or re-applied for at some point before 2035.

31. Of the 316 community radio stations that Ofcom has on their database, if all current licence holders were to use up their allotted three five year licence extensions each, licences would end as follows:

Table 4: Current dates community radio licences are set to expire (as in option 0) if licence holders use their remaining extensions

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
14	19	41	22	33	17	14	9	11	9	127

32. As shown above, 127 licences (including the 45 not currently on Ofcom's database) out of the 316 are either assumed or due to expire from 2035 onwards if the licence holders were to use all three of their 5-year extensions, meaning they are beyond the appraisal period for this assessment. Therefore, we know that there would have to be at least 189 remaining re-applications throughout the appraisal period (up to 2034) under the counterfactual option.

33. Re-advertising analogue community radio licences could attract new entrants into the market, and / or incentivise incumbent licence holders to improve their offerings in order to successfully re-bid for these licences as a result of increased competition. This could have some positive impacts on consumers, though there is unlikely to be a short-term economic benefit to new market entrants especially given wider market trends including the continued shift away from analogue radio to digital listening. Views expressed during the consultation found that some respondents perceived current standards amongst some community radio stations to be low and that re-advertising could help drive up the levels of local content provision (and potentially community radio station overheads in meeting enhanced requirements). We also appreciate that the consolidation of radio over the past two decades has reduced the number of radio groups, but note that the growth of digital methods has increased choice with more national and local stations than ever before. Improved access to technology and consolidation of the radio sector has helped services become more

efficient, leaving the sector as a whole in a stronger position that is less susceptible to wider economic disruption. However, as we don't have access to suitable evidence to effectively forecast the number of new possible entrants to the community radio sector over the appraisal period, for modelling purposes, we have assumed the number of licences expiring in the appraisal period to stay fixed at 189 under the counterfactual.

Option 1 - Allow the renewal of licences for a further five year period

34. This option would mean that community radio licences can be renewed by a further five year period in addition to the licensing period as currently allowed.

35. As in option 0, we estimate that all 316 community radio stations will need to either extend or reapply within the appraisal period (2025 – 2034) under option 1, with 129 of these being set to expire and require reapplying from incumbent licence holders within this same period following licences being allowed to be extended for a further five year period. The distribution of when these licences will end differs from in the counterfactual and are now scheduled as follows due to licences being extended for a further five years from the year where they would currently expire in the counterfactual option:

Table 5: Dates community radio licences would be set to expire (as in option 1) if licence holders use their remaining extensions

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
0	0	0	0	0	14	19	41	22	33	187

36. As shown above, 187 licences out of the 316 are due to expire from 2035 onwards if they were to use all three of their current 5-year extensions and the additional 5-year extension offer under option 1, meaning these 142 licences are beyond the appraisal period for this assessment. Therefore, we know that there would have to be at least 129 remaining re-applications throughout the appraisal period (up to 2034) under option 1.

Table 6: Additional licences set to expire if licence holders use their remaining extensions, under option 1 compared to the counterfactual.

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
-14	-19	-41	-22	-33	-3	5	32	11	24	60

37. As shown in table 6, under option 1, overall 60 fewer licences are due to expire over the appraisal period (2025-2034), compared to the counterfactual.

Costs

Monetised Costs

38. There will be a cost to incumbent licence holders and Ofcom from having to familiarise themselves with the legislation and a potential reduction in revenue for Ofcom.

Transition costs

Familiarisation costs

39. Ofcom, current licence holders and prospective licence holders would have to familiarise themselves with the new five year extensions under option 1.

    Familiarisation costs to incumbent licence holders:

    - *We anticipate that the familiarisation for each community radio station will take approximately 1 hour of time to get familiarised with these changes, at an hourly wage of £22.24*[6] *to understand them. As this intervention under option 1 is simply to offer a further five year extension in addition to the three already permitted by Ofcom to grant under the Communications Act 2003, we do not expect familiarisation costs to be significant and that the core functions of the community radio stations will be unchanged and not require adapting in response to this renewal process being implemented. These familiarisation costs are expected to apply to all 316 incumbent providers of community radio services who hold these licences.*
    - *Whilst prospective licence holders may have to familiarise themselves with these changes as well, neither DCMS or Ofcom does not hold estimates for the number of these prospective bidders. We have subsequently assumed the number of prospective licence holders to be zero for the purposes of this assessment.*
    - *We therefore assume that there will be approximately 316 incumbent community radio licence holders who will need to familiarise themselves with this legislation. An uplift of 22% should also be applied to cover non-wage labour costs, as per RPC guidance.*[7]
    - *Therefore, the total familiarisation costs for incumbent licence holders is:*

Community radio station familiarisation costs:

(316 x (22.24 x 1)) x 1.22 = £8,573.97

Familiarisation costs to Ofcom:

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[6] Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Information and Communication SIC.

[7] Implementation costs, August 2019, RPC.

- *Ofcom will also need to familiarise itself with its new responsibilities under option 1, with it now being able to offer a further five year extension to incumbent licence holders. We believe these familiarisation costs are likely to be relatively small as we have engaged with Ofcom throughout the development of this policy. For completeness, we assume that Ofcom will have to dedicate one week's work (42.5 hours) of a legal professional's time at a median hourly wage of £23.33.*[8] *This assumption is likely to be an overestimate as we do not have exact estimates from Ofcom for familiarisation costs, but we still assume one week's work to guard against optimism bias here. It is also assumed that one policy official will need to dedicate two day's work (17 hours) at an hourly wage of £22.24 to understand the change and prepare to brief senior management.*[9] *Though there might be unforeseen staff costs that are not accounted for here, we believe these to be negligible due to the relatively simplistic nature of this intervention and the expertise of Ofcom and its current staff.*
- *An uplift of 22% has also been applied to cover non-wage labour costs, as per RPC guidance.*[10]
- *Therefore, total familiarisation costs to Ofcom is:*

Ofcom familiarisation costs:

(1 x ((23.33 x 42.5) + (22.24 x 17))) x 1.22 = £1,670.92

<u>Ongoing costs</u>

Reduction in revenue for Ofcom

40. There is likely to be a reduction in revenues for Ofcom in the appraisal period from them receiving fewer £600 fees as the number of incumbent licence holders having to reapply for their expired licence is reduced under the preferred option compared to those that would have to in the counterfactual. We have attempted to estimate this reduction in revenue for Ofcom below:

- *Ofcom could previously expect to receive a £600 fee for each of the 316 community radio licences it offers once every 20 years (5 year initial licensing period and three 5 year licence extensions following that).*
- *We assume that, under option 1, that all 189 licence holders would, in the counterfactual scenario, pay the £600 fee to re-acquire their licence once they had expired across the appraisal period. However, only 129 incumbent licence holders would still have their licences expire by 2034 (if they were to take advantage of the 10-year extension) under option 1, and therefore we assume that there will be 60 licence holders fewer than would be expected to pay the £600 fee in the counterfactual across the appraisal period.*

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[8] Annual Survey of Hours and Earnings, ONS. Median hourly earnings (excluding overtime) for an individual with a professional occupation (SOC).

[9] Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Information and Communication SIC.

[10] Implementation costs, August 2019, RPC.

- *The reduction in revenue assumes that Ofcom receives 60 less payments than would be expected in the counterfactual over the 10-year appraisal period.*

Reduction in revenue for Ofcom:

600 x 60 =

= £36,000

41. Therefore, across the 10-year appraisal period, Ofcom can expect a reduction in revenue of roughly £36,000 under option 1 compared with the counterfactual. As explored in the benefits section, this reduction in revenue for Ofcom, results in a cost-saving for incumbent licence holders, as fewer licence holders will have to reapply for their expired licence, thus avoiding the £600 application fee.

Non-monetised Costs

Loss in economic value from new market entrants

42. DCMS is currently unaware of how many potential bidders would be interested in the community radio licences should they be allowed to expire and be re-advertised. It is also difficult to estimate how many of these potential bidders will be successful in obtaining these licences over the incumbent licence holders, and what the likelihood is that they will be able to add economic value and produce greater profit than their predecessors. Therefore, estimating the loss in economic value for new market entrants is not possible for this assessment. However, we do not expect this loss to be significant enough to take the EANDCB for this intervention above the de minimis threshold in any case.

43. To note, incumbent licence holders and any new potential licence holders are alternative not-for-profit organisations where operating surpluses (profits) have to be retained and reinvested. There is no scope for community radio stations to draw on any profits made.

Benefits

Monetised Benefits

44. Under option 1, the main benefit to incumbent licence holders is the reduced cost of not having to reapply compared with the counterfactual. This involves the process of preparing a bid (including research and business planning), as well as paying the application fee to Ofcom.

45. Under option 1, the expiry date of the licences would be delayed, assuming that the stations take up the renewals. However, as shown above, some of them would still expire within the appraisal period because the option 1 extension is only for 5 years, meaning some will still be expected to expire by 2034. 129 stations' licences would

still expire under option 1, as opposed to 189 expiring under option 0 (the counterfactual) in the appraisal period. Therefore the net impact of option 1 is 60 fewer community radio stations having to reapply for a licence. Based on this, we can attempt to estimate some of the cost savings from option 1 over the counterfactual.

46. However, the overall impact is a net cost saving to community radio stations, as approximately 68% of community radio stations would not have to reapply for their licences in the appraisal period under option 1 where they would have in the counterfactual.

Licence renewal cost savings to incumbent licence holders

Cost saving from fewer licence holders preparing a bid

- *Under option 1, we assume 60 fewer incumbent community radio licence holders will have to reapply for their licences once they expire, compared to the counterfactual.*
- *Ofcom requires applicants to complete an application form detailing their key commitments and preferred location within the region they are bidding for a frequency in. Owing to a lack of evidence from industry, we have attempted to estimate the time required to prepare a bid ourselves. Due to its concise nature, we estimate it will take each applicant two working days (17 hours) to complete at a median hourly wage of £22.24.*[11] *However, this time estimate is likely to be an overestimate for incumbent licence holders who will likely have a greater understanding of their station and the region it operates in and will, therefore, be able to complete their application more efficiently than new bidders.*
- *For the purposes of this assessment we assume the number of community radio licences currently available to be fixed. DCMS are not currently aware of new entrants or applicants into the community radio market. Though consultation responses did suggest new entrants might be attracted should licences be re-advertised, it is not possible for us to estimate the current level of interest due to a lack of evidence available.*
- *We therefore assume that there will be 60 fewer licence holders that will need to prepare a new bid to reapply for their licence over the 10-year appraisal period up to 2034, compared to the counterfactual. These cost savings have been summed below on a total and yearly basis. An uplift of 22% has been applied to cover non-wage labour costs, in accordance with RPC guidance.*[12]
- *Therefore, the total cost saving to incumbent community radio licence holders from having to prepare an application over the 10-year appraisal period is:*

[11] Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Information and Communication SIC.
[12] Implementation costs, August 2019, RPC.

(60 x (22.24 x 17)) x 1.22 = £27,675.46

Cost saving from fewer licence holders paying application fee

- *According to Ofcom, each application for a community radio licence must be accompanied by a non-refundable application fee of £600.*
- *We therefore assume that there will be 60 fewer licence holders that will need to pay a fee of £600 to reapply for their licence over the 10-year appraisal period up to 2034, compared to the counterfactual. Therefore, the total cost saving from fewer incumbent community radio licence holders paying the application fee over the 10-year appraisal period is:*

60 x 600 = £36,000

Licence renewal cost savings to Ofcom

Cost savings from Ofcom evaluating fewer bids

- *We would expect the time taken to review a single bid for any community radio licence will be roughly 1.5 hours. This would need to be done by a finance professional at a median hourly wage of £23.33*[13] *and one other member of Ofcom at a median hourly wage of £22.24.*[14] *For completeness, we also assume that the final decision for renewal will need to be made by an Ofcom employee in a managerial, directorial, or other senior official role. We believe it will take roughly 1 hour for this employee to review the bids for each of the community radio licences, at a median hourly wage of £24.77.*[15]
- *We assume that Ofcom will be required to review 60 fewer bids over the 10-year appraisal period. An uplift of 22% has been applied to non-wage labour costs, in accordance with RPC guidance.*
- *Therefore, the total cost savings to Ofcom from having to evaluate fewer bids over the 10-year appraisal period is:*

((23.33 x (60 x 1.5)) + (22.24 x (60 x 1.5)) + (24.77 x (60 x 1)) x 1.22) =

= £6816.75

Option 2 - Allow the renewal of licences for a further <u>ten year</u> period (preferred option)

[13] Annual Survey of Hours and Earnings, ONS. Median hourly earnings (excluding overtime) for an individual with a professional occupation (SOC).
[14] Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Information and Communication SIC.
[15] Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Managers, directors and senior officials occupational group.

47. Option 2 would mean that community radio licences can be renewed by a further ten year period in addition to the licensing period as currently allowed.

48. As above, we estimate that all 316 community radio stations will need to either extend or reapply within the appraisal period (2025 - 2034). However, under option 2, no licences would be set to expire within the appraisal period following licences being allowed to be extended for a further ten year period. For example, licences due to expire in 2025 would, under the preferred option, not expire until 2035 should they take advantage of the ten year extension outside of the appraisal period for this assessment. The distribution of when these licences will end differs from in the counterfactual and are now scheduled as follows due to licences being extended for a further ten years from the year when they would currently expire in the counterfactual option:

Table 7: Dates community radio licences would be set to expire (as in option 2) if licence holders use their remaining extensions

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
0	0	0	0	0	0	0	0	0	0	316

49. As shown above, under option 2, all 316 licences are due to expire from 2035 onwards were they to use all three of their 5-year extensions, meaning they are beyond the appraisal period for this assessment. Therefore, we assume there to be zero re-applications throughout the appraisal period (up to 2034) under the preferred option.

Table 8: Additional licences set to expire if licence holders use their remaining extensions, under option 2 compared to the counterfactual.

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
-14	-19	-41	-22	-33	-17	-14	-9	-11	-9	189

50. As shown in table 8, under option 2, overall 189 fewer licences are due to expire over the appraisal period (2025-2034), compared to the counterfactual.

Costs

Monetised Costs

51. As in option 1, there will be a cost to incumbent licence holders and Ofcom from having to familiarise themselves with the legislation and a potential loss in profit for

prospective bidders. The methodology in estimating these costs is the same as those used to estimate the costs of option 1, we have summarised these costs below.

Transition costs

Familiarisation costs

52. As option 2 only alters the duration of the extension compared to option 1, we expect familiarisation costs to be similar in both options, which we expect to be incurred by both incumbent licence holders and Ofcom.

53. As in option 1, we assume that all 316 incumbent licence holders will have to familiarise themselves with these changes. Therefore, the same methodology for estimating the familiarisation cost applies here in option 2, with the cost totals summarised below.

Familiarisation costs to incumbent licence holders:

Community radio station familiarisation costs:

(316 x (22.24 x 1)) x 1.22 = £8,573.97

Familiarisation costs to Ofcom:

Ofcom familiarisation costs:

(1 x ((23.33 x 42.5) + (22.24 x 17))) x 1.22 = £1,670.92

Ongoing costs

Reduction in revenue for Ofcom

54. There is likely to be a reduction in revenue for Ofcom in the appraisal period from them receiving fewer £600 fees as the rate of incumbent licence holders having to reapply for their expired licence is reduced to zero under the preferred option. Using the same methodology as in option 1, but assuming that there will be 189 fewer licence holders expected to pay the £600 application fee compared to the counterfactual, we have attempted to estimate this reduction in revenue for Ofcom below:

Reduction in revenue for Ofcom:

600 x 189

= £113,400

55. Therefore, across the 10-year appraisal period, Ofcom can expect a reduction in revenue of roughly £113,400 under option 2 compared with the counterfactual. As explored in the benefits section, this reduction in revenue for Ofcom, results in a cost-saving for incumbent licence holders, as fewer licence holders will have to reapply for their expired licence, thus avoiding the £600 application fee.

Non-monetised Costs

Loss in profit for potential bidders

56. As explained in option 1, estimating the loss in profit for potential bidders is not possible for this assessment due to a lack of evidence relating to their current and potential revenues. However, we do not expect these losses to be significant enough to take the EANDCB for this intervention above the de minimis threshold under the preferred option.

57. To note, incumbent licence holders and any new potential licence holders are alternative not-for-profit organisations where operating surpluses (profits) have to be retained and reinvested. There is no scope for community radio stations to draw on any profits made.

Benefits

Monetised Benefits

58. The main benefit to business is the reduced cost of not having to reapply compared with options 0 and 1. As stated above this involves the process of preparing a bid (including research and business planning), as well as paying the application fee to Ofcom.

59. Under option 2, the expiry date of the licences would be delayed, assuming that the stations take up the renewals. Therefore, 0 stations' licences would be expected to expire under option 2, as opposed to 189 expiring under option 0 (the counterfactual) in the appraisal period. The resulting net impact of option 2 is 189 fewer community radio stations having to reapply for a licence that otherwise would have had to by 2034. Based on this, we can attempt to estimate some of the cost savings from the preferred option over the counterfactual.

60. The overall impact is a net cost saving to community radio stations, as none of the community radio stations would not have to reapply for their licences under the preferred option where they would have in the counterfactual.

Licence renewal cost savings to incumbent licence holders

Cost saving from fewer licence holders preparing a bid

- *Under option 2, we assume 189 fewer incumbent community radio licence holders will have to reapply for their licences once they expire, compared to the counterfactual.*
- *Using the same methodology as in option 1, we estimate the total cost saving to incumbent community radio licence holders from having to prepare an application over the 10-year appraisal period as:*

(189 x (22.24 x 17)) x 1.22 = £87,177.69

Cost saving from fewer licence holders paying application fee

- *Using the same methodology as in option 1, we estimate the total cost saving from fewer incumbent community radio licence holders paying the application fee over the 10-year appraisal period as:*

  189 x 600 = £113,400

Licence renewal cost savings to Ofcom

Cost savings from Ofcom evaluating fewer bids

- *Using the same methodology as in option 1, we estimate the total cost savings to Ofcom from having to evaluate fewer bids over the 10-year appraisal period as:*

  (((23.33 x (189 x 1.5)) + (22.24 x (189 x 1.5)) + (24.77 x (189 x 1))) x 1.22) =

  = £21,472.76

Option 3 - **Allow the renewal of licences in perpetuity.**

61. Option 3 would mean that community radio licences can be renewed indefinitely by their incumbent holders.

62. Based on data from Ofcom, we estimate that all **316** stations would need to extend their licences within the appraisal period (2025 - 2034). However, as Ofcom would, under option 3, have the power to extend these licences in perpetuity, meaning that no licences would expire over the appraisal period as shown below.

Table 9: What dates community radio licences would be set to expire (as in option 3) if licence holders use their remaining extensions

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
0	0	0	0	0	0	0	0	0	0	316

63. As shown above, under option 3, all 316 licences would no longer expire (that otherwise would) before 2035, meaning they are beyond the appraisal period for this assessment. Therefore, we assume that there would be no re-applications throughout the appraisal period (up to 2034) under option 3.

Table 10: Additional licences set to expire if licence holders use their remaining extensions, under option 3 compared to the counterfactual.

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035+
-14	-19	-41	-22	-33	-17	-14	-9	-11	-9	189

64. As shown in table 10, under option 3, overall 189 fewer licences are due to expire over the appraisal period (2025-2034), compared to the counterfactual.

Costs

Monetised Costs

65. As in option 2, the most significant costs will be a cost to businesses of familiarising themselves with the legislation and a potential loss in profit for prospective bidders. Whilst the methodology in estimating these costs is the same as those used to estimate the costs of option 2, we have summarised these costs below.

Transition costs

Familiarisation costs

66. As option 3 only alters the duration of the extension compared to options 1 and 2, we expect familiarisation costs to be similar in both options, which we expect to be incurred by both incumbent licence holders and Ofcom.

67. Similar to options 1 and 2, we assume that all 316 incumbent licence holders will have to familiarise themselves with these changes. Therefore, the same methodology for estimating the familiarisation cost applies here in option 3, with the cost totals summarised below.

Familiarisation costs to incumbent licence holders:

Community radio station familiarisation costs:

(316 x (22.24 x 1)) x 1.22 = £8,573.97

Familiarisation costs to Ofcom:

Ofcom familiarisation costs:

(1 x ((23.33 x 42.5) + (22.24 x 17))) x 1.22 = £1,670.92

Ongoing costs

Licence renewal costs

68. Due to licences being extended in perpetuity under option 3, no current licensee would be required to reapply and purchase their licence after it has expired. As a result, the £600 fee will only be paid by those wishing to acquire a brand new community radio licence. For reasons outlined previously in regards to evidence limitations, we can only attempt to estimate the renewal cost for incumbent licence holders and not new market entrants. We therefore assume the licence renewal costs to be negligible to none under option 3.

Reduction in revenue for Ofcom

69. The reduction in revenue for Ofcom under option 3 is likely to be the same as under option 2. Removing the need for incumbent licence holders to pay the £600 fee to re-acquire their licence after expiration results in costs to Ofcom from no longer receiving these fees in perpetuity. We summarise reduction in revenue for Ofcom below following the same methodology as that used for option 2.

Reduction in revenue for Ofcom:

600 x 189

= £113,400

70. Therefore, across the 10-year appraisal period, Ofcom can expect a reduction in revenue of roughly £113,400 under option 3 compared with the counterfactual.

Loss in profit for potential bidders

71. As explained for the previous options, estimating the loss in profit for potential bidders is not possible for this assessment due to a lack of evidence. However, we do not expect these losses to be significant enough to take the EANDCB for this intervention above the de minimis threshold under option 3.

Benefits

72. Similar to option 2, the primary benefit to business is the reduced cost of not having to reapply once their community radio licence has expired. As stated above this involves preparing a bid (including research and business planning), as well as paying the application fee to Ofcom.

73. Like option 2, under option 3, no stations' licences would expire within the appraisal period, as opposed to 189 expiring under option 0 (the counterfactual). Therefore the net impact of option 3 is 189 fewer community radio stations having to reapply for a licence. Based on this, we estimate the cost savings of option 3 over the counterfactual to be the same as those estimated for option 2, these cost savings are set out briefly below.

74. The overall impact is a net cost saving to community radio stations, as no radio stations would have to incur the cost of preparing bids or pay the fee to re-acquire their licence after expiration.

Licence renewal cost savings to incumbent licence holders

Cost saving from fewer licence holders preparing a bid

- *We estimate the total cost saving to incumbent community radio licence holders from having to prepare an application over the 10-year appraisal period as:*

(189 x (22.24 x 17)) x 1.22 = £87,177.69

Cost saving from fewer licence holders paying application fee

- *We estimate the total cost saving from fewer incumbent community radio licence holders paying the application fee over the 10-year appraisal period as:*

189 x 600 = £113,400

Licence renewal cost savings to Ofcom

Cost savings from Ofcom evaluating fewer bids

- *We estimate the total cost savings to Ofcom from having to evaluate fewer bids over the 10-year appraisal period as:*

(((23.33 x (189 x 1.5)) + (22.24 x (189 x 1.5)) + (24.77 x (189 x 1))) x 1.22) =

= £21,472.76

75. We would expect benefits under option 3 to be greater than the benefits for other options presented, as licences would never expire and need to be renewed, resulting in additional cost savings beyond the 10 year appraisal period. To ensure the analysis is consistent and given the ever-evolving nature of community radio and the radio industry more broadly and the potential switchover from analogue to digital beyond 2030, we have not attempted to extend the appraisal period to monetise these additional benefits.

Summary: Options considered to extend community radio licences

76. Option 1 has higher costs and lower benefits than both options 2 and 3. The costs and benefits of option 3 over the counterfactual are estimated to be the same as those for option 2 across the ten-year appraisal period, due to both not forcing any licences to expire prior to 2035. Beyond the appraisal period, from 2035 onwards, all 316 licences would eventually expire under option 2. As such we would expect benefits from cost savings to be greater under option 3, as licences would never expire, meaning a re-licensing process would not be required.

77. Our rationale behind putting forward option 2 as our preferred option over option 3, is due to a number of factors. Firstly, option 2 allows for licence extensions to be reassessed in 2035 when the first group of licences would be scheduled to expire if they were to take advantage of the 10-year extension offered under the preferred option. This would allow DCMS to consider at this stage whether this intervention has been appropriate, and reassess the trajectory of the analogue community radio sector in the context of wider market trends including the continued shift to digital listening.

78. Secondly, option 2 (preferred option) would keep open the possibility of new entrants entering the community radio market following the licences beginning to expire and be re-advertised. Under option 3, these licences would never expire and so the number of entrants allowed to enter the sector would be subject to Ofcom's decision on whether to and how many new licences to offer to prospective licence holders. For these reasons, we believe that option 2 (preferred option) balances the need for certainty while retaining the flexibility for DCMS to make future policy decisions regarding the licensing period of community radio stations.

2.2 Options considered to change the 'fixed revenue allowance' of community radio stations

79. Since 2015, community radio stations have been able to raise at least £15,000 per year from commercial sources, with the overwhelming majority of stations being able to raise a proportion of their annual revenue beyond this allowance from the same advertising and sponsorship sources where their coverage areas do not overlap with those of a small commercial radio station. Therefore, for the following section, we have grouped community radio stations as follows:

> **Type A Community Radio Stations:** Currently subject to a £15,000 'fixed revenue allowance' per financial year of the licensee. This applies to any community radio service where that service overlaps with any local commercial radio service serving a potential audience of no more than 150,000 persons who have attained the age of 15 years or older. According to

Ofcom, only 5 out of 316 community stations are in this category due to successive consolidation of commercial radio stations into larger networked or partially networked groups.

Type B Community Radio Stations: Currently subject to a ‘fixed revenue allowance’ totalling £15,000 plus a proportion of the total relevant income (specified by Ofcom in the licence), but which must not exceed 50% of the total relevant income per financial year of the licensee. This applies to all other community radio services other than those which fits into the **Type A** criteria outlined above.

80. We have outlined below the three different options we are considering in relation to changing the £15,000 limit and have attempted to estimate the impact of doing so on these on both **Type A** and **Type B** community radio stations. The preferred option below will be introduced as part of this intervention in addition to the preferred option outlined previously in relation to extending community radio licences.

81. Due to a lack of evidence from industry, it is difficult to estimate the potential benefits of these different options. Ofcom roughly estimates around 66% of community radio services have an on air income of less than £15,000. Stations whose local commercial service has taken advantage of provisions introduced into the Broadcasting Act 1990 by the Digital Economy Act 2010, along with stations with no local competition can raise up to 50% of their annual revenue above £15,000 via commercial avenues. Of these remaining one-third of services whose on-air income exceeds £15,000, most have a variety of other sources of income, including off-air revenue, grants or in-kind support. In 2022, for example, just over 50 services had on-air income of more than £25,000 and fewer than 30 services had income of £40,000. As such, the category of service for whom the funding rules exercises a controlling function is small, in reality. It is therefore unlikely that increasing the fixed revenue allowance to beyond £15,000 would have any notable benefits for stations as well as for businesses who advertise on community radio stations, as stations aren’t currently using the maximum allowance currently available to them.

82. As increasing or removing the annual allowance for community radio stations is a ‘permissive’ regulatory intervention, it is difficult to know how many and to what degree incumbent community radio licence holders will take advantage of their increased limits in options B and C. Also, the pool of local businesses who advertise on community radio is small and it is difficult to know how many and to what degree local businesses will increase their existing advertising presence, or if new businesses will take-up the opportunity to advertise on community radio. Given wider economic challenges local businesses are facing, we do not anticipate them to significantly increase their advertising spend - approximately 30% of trading small businesses who have between 10 and 49 employees experienced a decrease in

turnover in September 2024 and 40% experienced no change in their turnover.[16] Due to this difficulty and the lack of evidence mentioned previously, it has not been possible to monetise the potential benefits of increased commercial revenue for community radio stations as well as increased revenue for advertising businesses. However, as the category of service for whom the funding rules exercise a controlling function is small, we would expect the benefits of increasing the limit to above this level to not produce benefits significant enough to risk the EANDCB of this analysis being in breach of the +/-£5 million de minimis threshold.

Option A - Do nothing / Leave unchanged at £15,000 annual limit for 'Type A' radio stations

83. Under option A, the limit on commercial revenue for community radio stations will remain fixed at £15,000 per year for **Type A** radio stations and **Type B** stations will continue to be able to raise up to 50% of their annual revenue beyond this allowance from advertising and sponsorship sources.

Option B - Increase limit to £25,000 in line with inflation up to 2035 for 'Type A' radio stations

84. Under option B, the limit on commercial revenue for community radio stations will be increased to £25,000 per year for **Type A** radio stations. **Type B** radio stations would still be able to claim up to 50% of their annual revenue beyond this allowance from commercial sources under this option.

85. As, under preferred option 1, licences will be extended for a further 10 years, we have taken the Office for Budget Responsibility's CPI forecasts up to 2028, and assumed CPI to rise at 2% per year thereafter until 2035 as suggested by some consultation responses, 10 years after the order will take effect. Through multiplying the £15,000 limit in 2015 by CPI historical or forecast rates up to this point, we get an inflation-adjusted limit of £24,686 in 2035. This has been rounded up to £25,000 to be in line with the suggestions of the consultation responses received.

Costs

Transition costs

Familiarisation costs

86. Ofcom, current licence holders and prospective licence holders would have to familiarise themselves with the increased limit under option B.

    Familiarisation costs to incumbent licence holders:

[16] ONS, Business insights and impact on the UK economy, 2024

- *We anticipate that the familiarisation for each community radio station will take approximately 0.75 hours of time to get familiarised with these changes, at an hourly wage of £22.24*[17] *to understand them. As this intervention under option 1 is simply to offer an increase on the pre-existing 'fixed revenue allowance', we do not expect familiarisation costs to be significant and that the core functions of the community radio stations will be unchanged and not require adapting in response to this renewal process being implemented. These familiarisation costs are expected to apply to all 316 incumbent providers of community radio services who hold these licences.*
- *Whilst prospective licence holders may have to familiarise themselves with these changes as well, neither DCMS or Ofcom does not hold estimates for the number of these prospective bidders. We have subsequently assumed the number of prospective licence holders to be zero for the purposes of this assessment.*
- *We therefore assume that there will be approximately 316 incumbent community radio licence holders who will need to familiarise themselves with this legislation. An uplift of 22% should also be applied to cover non-wage labour costs, as per RPC guidance.*[18]
- *Therefore, the total familiarisation costs for incumbent licence holders is:*

Community radio station familiarisation costs:

(316 x (22.24 x 0.75)) x 1.22 = £6,430.47

Familiarisation costs to Ofcom:

- *Ofcom will also need to familiarise itself with this new fixed revenue allowance under option B. We believe these familiarisation costs are likely to be relatively small as we have engaged with Ofcom throughout the development of this policy. For completeness, we assume that Ofcom will have to dedicate one week's work (42.5 hours) of a financial professional's time at a median hourly wage of £23.33.*[19] *This assumption is likely to be an overestimate as we do not have exact estimates from Ofcom for familiarisation costs, but we still assume one week's work to guard against optimism bias here. It is also assumed that one policy official will need to dedicate two day's work (17 hours) at an hourly wage of £22.24 to understand the change and prepare to brief senior management.*[20] *Though there might be unforeseen staff costs that are not accounted for here, we believe these to be negligible due to the relatively simplistic nature of this intervention and the expertise of Ofcom and its current staff.*

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17 Annual Survey of Hours and Earnings 2023, ONS. Average hourly wage of an individual in the Information and Communication SIC.

18 Implementation costs, August 2019, RPC.

19 Annual Survey of Hours and Earnings, ONS. Median hourly earnings (excluding overtime) for an individual with a professional occupation (SOC).

20 Annual Survey of Hours and Earnings 2023, ONS. Median hourly earnings of an individual in the Information and Communication SIC.

- *An uplift of 22% has also been applied to cover non-wage labour costs, as per RPC guidance.*[21]
- *Therefore, total familiarisation costs to Ofcom is:*

Ofcom familiarisation costs:

(1 x ((23.33 x 42.5) + (22.24 x 17))) x 1.22 = £1,670.92

<u>*Other costs*</u>

87. We do not anticipate there to be any significant costs from option B beyond these familiarisation costs. The £25,000 cap on **Type A** radio stations still provides protection for commercial radio stations operating within the same region. Whilst there might be some transition costs in the form of familiarisation costs, these are likely to be negligible and only incurred by community radio stations that voluntarily change the way they operate to take advantage of the increased limit.

Benefits

88. The primary benefits of option B is simply the increased commercial revenue potential that community radio stations would have access to. **Type A** radio stations would have £10,000 more than they currently have access to through commercial sources, with this change subsequently raising the amount **Type B** radio stations can access as well.

89. Increasing the limit to £25,000 would enable both Type A and Type B stations to generate additional funding through advertising and sponsorship that could then be spent on overheads, additional programming or updating necessary equipment for broadcasting, to secure and improve the future provision of the community radio service and deliver community benefits to their target audience. An increase of this amount reflects demand within the sector to bring the upper limit in line with current levels of inflation (given that the figure has not been increased since it was originally introduced). A limit of £25,000 also continues to provide protection for the interests of the three small commercial stations that overlap with community radio stations (through ensuring fair competition for advertising and sponsorship) 0 though there are other ways this could be achieved (for example through transitional protections).

90. An increased commercial revenue limit also has the potential to increase revenues for businesses who use community radio stations as an advertising platform. Increasing the limit to £25,000 allows community radio stations to potentially offer additional advertising opportunities to businesses, which in-turn has potential to create additional revenue for these businesses by increasing their visibility and sales.

[21] Implementation costs, August 2019, RPC.

Option C - <u>Increase limit to £30,000</u> for 'Type A' radio stations and removed entirely for 'Type B' stations (preferred option)

91. Under option C, the limit on commercial revenue for community radio stations will be increased to £30,000 for **Type A** stations, with the cap being removed for those that are **Type B**. The £30,000 limit under this option was the upper-limit of those suggested in the consultation responses received and so we have considered this for **Type A** stations.

Costs

<u>Transition costs</u>

Familiarisation costs

92. As option C only alters the duration of the extension compared to option B, we expect familiarisation costs to be similar in both options, which we expect to be incurred by both incumbent licence holders and Ofcom.
93. As in option B, we assume that all 316 incumbent licence holders will have to familiarise themselves with these changes. Therefore, the same methodology for estimating the familiarisation cost applies here in option C, with the cost totals summarised below.

Familiarisation costs to incumbent licence holders:

Community radio station familiarisation costs:

(316 x (22.24 x 0.75)) x 1.22 = £6,430.47

Familiarisation costs to Ofcom:

Ofcom familiarisation costs:

(1 x ((23.33 x 42.5) + (22.24 x 17))) x 1.22 = £1,670.92

<u>Other costs</u>

94. As with option B, we do not anticipate there to be any significant costs resulting from option C beyond the familiarisation costs listed previously. The decision to use the higher limits on sponsorship and advertising revenue is at the discretion of the community radio stations and any costs they incur in pursuing these additional revenues are their own to bear.

Benefits

95. Similar to option B, the benefits of option C are from increasing the cap on commercial revenue that community radio stations have access to by £15,000 for **Type A** radio stations. However, removing this cap entirely for **Type B** stations provides more significant benefits than option B and allows these stations to maximise their revenue potential from sponsorship and advertising sources, to secure and improve the future provision of their community radio service and deliver community benefits to their target audience.

96. An increased commercial revenue limit also has the potential to increase revenues for businesses who use community radio stations as an advertising platform. Increasing the limit to £30,000 for Type A radio stations and removing the cap completely for Type B radio stations allows stations to potentially offer additional advertising opportunities to businesses, which in-turn has potential to create additional revenue for these businesses by increasing their visibility and sales.

97. An increase of this level reflects demand across the sector to significantly increase the cap which could allow community radio stations to be able to hire a full-time member of staff (such as a station manager or producer) from additional commercial revenues. The limits proposed by **Option A** and **Option B** would not permit stations to hire a full-time employee in this way. Many community radio stations see this inability to hire a full-time member of staff as a barrier to the development of their station's offerings and to the success of the sector more broadly.

98. However, following discussions with the three commercial radio stations that overlap with community radio stations, it became apparent that the affected small commercial stations operate within extremely tight financial margins. Such services are not part of larger national or regional groups and retain very strong local community links. The three commercial radio stations in question outlined their concerns that if restrictions were removed in their entirety it would have a negative impact on their long-term financial viability (as both commercial and community radio stations would be competing for the same small pool of local advertising).

Summary: Options considered to change the 'fixed revenue allowance' of community radio stations

99. The costs of options B and C are expected to be the same across the appraisal period. However, benefits are expected to be greater under option C compared to option B. Option C has been selected as the preferred option as it allows the vast majority of community radio stations to have maximum access to commercial sources of funding, whilst still providing a level of protection to commercial radio stations by limiting this access for community radio stations that operate within the

same region as them.

100. Please see Table 1, 2 and 3 for a summary of the monetised costs and benefits as well as the EANDCB and NPV for each policy option considered throughout this Cost Benefit Analysis.

3.0 Risks and unintended consequences

101. This government intervention is to enable both the continuation of community or radio services and regulatory regime as it exists now. In the instance of the preferred option, the directly impacted parties would be Ofcom as the designated regulator and the existing community radio licence holders. The preferred policy option, which requires this intervention, is well-developed and has been subject to consultation. The responses received to the consultation demonstrated overall support for the preferred option.

102. The current licence holders and Ofcom have operated under the existing system for the preceding decade and are well accustomed to the regulatory regime for community radio stations. On this basis, we would have expected any direct or indirect risks and unintended consequences resulting from the licensing regime to have materialised by this point. Nevertheless, we expect any potential risks or unintended consequences that may arise from this government intervention to be minimal.

Table 11: Risk analysis

Assumption	Evidence	Risk	Sensitivity
Secondary legislation will be implemented in time to enable the licences to be renewed.	The delivery timeline for the coming into force of the secondary legislation to enable Ofcom to renew the licence for a further period is due for completion in 2025.	The risk is that the legal work delivery timings do not align and the laying of the secondary legislation and subsequent passage through parliament and coming into force is delayed.	The draft Order making the changes has been laid in Parliament in December 2024. It is therefore on track to come into force on 1 April 2025 and in time for the first expiry date in October 2025.
The number of licences remains fixed with all current community radio licence holders choosing to apply to have their licences extended as many times as possible.	Current licence holders articulated support for extension of the licences in the consultation responses they submitted and indicated intention to continue providing the services for which they are licensed. The majority of current licence holders on Ofcom's database (269 out of 271) have opted to extend their licences at least once when offered the opportunity to do so. Though small, there is also interest from prospective bidders into acquiring these licences suggesting that some licences (particularly those in more populous areas) would be reacquired if they were to become vacant.	The risk is that not all current licence holders would apply to have their licences renewed.	Given the content of the consultation responses submitted by and/or on behalf of current licence holders and engagement with the sector, we believe it unlikely that a significant proportion of the licence holders would not pursue renewal of their licences.
Community radio stations will continue to provide similar content as they do now following the 'fixed revenue allowance increase'.	Community radio stations are primarily supported by volunteers and are run on a not-for-profit basis. These typically only cover a small geographical area. Therefore, there is little incentive to produce more commercialised content rather than	There is a risk that community radio stations become too commercially focused following the 'fixed revenue allowance' increase and do not provide the same locally-produced content as they instead produce content that is more	Community radio stations are still subject to format requirements and need to demonstrate to Ofcom that they provide social gain for the communities they serve. The vast majority of these stations aren't using their full £15,000 fixed

	‘locally-produced’ content due to their listenership potential to be limited by the region in which they operate.	easily commercialised.	revenue allowance as currently permitted by Ofcom. For these reasons we believe the number of stations that will significantly change their content to pursue the higher revenue allowances to be negligible.

4.0 Wider Impacts

103. Some wider impacts on the regulator and consumers are considered above. There are not believed to be any significant negative wider impacts of this policy.

Small and Micro Business Assessment

104. Since 2015, community radio stations have been limited to raising a maximum of £15,000 per year from commercial sources where that service overlaps with any local commercial radio service serving a potential audience of no more than 150,000 persons who have attained the age of 15 years or older.[22] However, all other stations that this condition does not apply to have access to additional income equivalent to 50% of their annual income above this £15,000 limit.

105. Due to the limited revenue allowances community radio stations currently have access to, we believe it reasonable to assume that all of these stations can be identified as either small or micro due to these revenues not being significant enough to employ enough full time staff to meet the Better Regulation Framework’s employee thresholds for medium (50-499) and large-sized (500+) businesses.[23] To further support this Ofcom has indicated that, in 2022, around 66% of community radio services had an on-air income of less than £15k, with just 50 services having an on-air income of more than £25k, with less than 30 having an income of £40k.

106. Therefore, we assume that all 316 incumbent community radio licence holders are in scope of this intervention and not eligible for exemption in this instance. As the preferred option specifically looks to introduce a mechanism for extending these licences through Ofcom, it is not possible for these businesses to be exempt from this regulation.

[22] Ofcom guidance
[23] Better Regulation Framework 2023

107. As all community radio stations are assumed to be small and micro businesses for this analysis, the impact on these businesses will, therefore, be equal to the estimated total impacts placed on these small and micro incumbent licence holders under preferred option 2 and preferred option C, with a total cost of £15,004.44 (£8,573.97 + £6,430.47) and total benefits of £200,577.69 across the 10-year appraisal period to 2034. We therefore expect option 2 and option C to be much more beneficial than costly for small and micro businesses.

Competition Impact

108. The Competition and Market Authority (CMA) sets out a checklist under which a competition assessment should be conducted. It asks the following questions, does the proposal:
1) Directly or indirectly limit the number or range of suppliers;
2) Limit the ability of suppliers to compete;
3) Limit suppliers' incentives to compete vigorously;
4) Limit the choices and information available to consumers.
We address these in turn below:

- **1)** Our intervention does not directly limit the number of community radio providers as there is a finite space of radio spectrum to accommodate analogue suppliers and there is limited FM spectrum available except in rural or remote areas less likely to be able to support a community service. Therefore, new entrants would generally be at the expense of incumbents rather than adding to the total number of community radio stations. The renewal of licences for a further ten year period, in addition to the licensing period as currently allowed, would however limit the range of community radio providers, as new entrants would be unable to bid for licences. The intervention to relax commercial revenue restrictions community radio stations face, will support current licence holders and could make the sector more appealing to operate in, however, given the changing media landscape, we do not expect this intervention to attract new entrants.

- **2-3)** The intervention to extend community radio licences does limit the ability for suppliers to compete over the analogue format, but not over digital formats where there is increasing (to a virtually unlimited extent) space for new entrant community radio stations and competition. As documented in Ofcom's recent progress report on Small-Scale Digital Audio Broadcasting (SSDAB), Ofcom is planning to build on the success of its SSDAB rollout across the UK to run two further rounds of SSDAB multiplex licensing – SSDAB multiplexes (the infrastructure which broadcasts DAB radio stations) allow up to 25 radio stations in the same geographical area to broadcast on the same frequency. This could have dampening effects on would-be analogue licence holders, but Ofcom has suggested that interest from prospective bidders in analogue community radio licences is low with them receiving around 15 'queries' per year from stakeholders wishing to acquire a licence.

  The intervention to relax commercial revenue restrictions for community radio stations will allow community stations to develop their services, including on DAB or online, where, increasingly, audiences are tuning in. This will support community radio stations in a competitive market, where there has been considerable consolidation in commercial radio and the number of independent stations has fallen as smaller groups have been absorbed by larger groups.

- **4)** Due to these other formats for radio and other substitutes for information / audio-visual entertainment (such as televised news, music apps and print newspapers), consumer choice is not severely limited by the policy, particularly due to the finite radio spectrum argument as well. It should be noted however, that older people are more likely to consume analogue radio (and could find digital alternatives less accessible), so their choices may be more dependent on this policy.

Trade and Investment Impact

109. We do not anticipate this regulation adding any new barriers to trade and investment.

Equalities Impact Assessment

110. We do not envisage this policy having a disproportionate impact on those with protected characteristics under the Public Sector Equality Duty set out in the Equality Act 2010. Indeed, we envisage that the policy will enhance the benefits of community radio for people with protected characteristics. The policy seeks to deliver improved social outcomes through increasing the scope, quality and capability of community media and content produced, including for underrepresented communities across the country. Specifically, the policy is beneficial for community radio stations that broadcast to individuals with protected characteristics such as:
    a. Racial characteristics: There are multiple community radio stations that cater to Asian communities with programming in multiple languages e.g. Fever FM.
    b. LGBTQ+: Community radio stations such as Gaydio serve LGBTQ+ communities in a number of areas across the UK, specifically catering to their interests and experiences.
    c. Underrepresented languages: Community radio stations can deliver content in languages that are typically not found in other forms of media. E.g. Radyo An Gernewegva (RanG) is a Cornish online radio service that is broadcasted on three Community Radio stations in Cornwall.

Devolution Test

111. Due to the widespread use of community radio stations across the UK and the decentralised nature of these stations, we do not expect this policy to have a disproportionate impact on any one region.

Family Test/loneliness/ social isolation

112. Community radio was initially envisaged by the government as an opportunity for services to engage local communities and bring them together around a shared voice and interest. This has been expressed in a number of responses received to the consultation, which articulated the importance of local radio and the community benefits that it delivers. The measures set out in this assessment do not make any changes to the key requirements that community radio stations need to be operated as not-for-profit organisations and need to deliver social gain for the communities they serve and the government does not believe the proposed changes will affect community radio's ability to engage and support local communities.

Justice Impact Test

113. We do not envisage that this policy would have any implications for the justice system.

Sustainable Development

114. We do not envisage this policy to have any implications in this area.

Greenhouse Gases Impact Test/Wider Environmental

115. We do not envisage this policy to have any implications in this area.

Health Impact Assessment

116. We do not envisage this policy to have any explicit impact on health, wellbeing or related inequalities.

Rural Proofing

117. We do not envisage this policy to have any disproportionate impact on rural locations.

5.0 Post implementation review

118. It is not believed that an evaluation is needed for this intervention as the policy is maintaining the status quo for now. No PIR or statutory review clause is being set. But the new expiry dates will effectively act as a sunset clause to the policy, though not legislated for. DCMS will reconsider at the point of these new

expiry dates whether any further changes are needed, taking into context any changes in market trends in the radio and wider media sector.