

Review of current funding restrictions for community radio

Price Base Year 2014	PV Base Year 2014	Time Period Years 5	Net Benefit (Present Value (PV)) (£m)		
			Low: 2.54	High: 7.18	Best Estimate: 4.84

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)(£m)	Total Cost (£m)(Present Value)
Low	n/a	0.003	0.01
High	n/a	0.008	0.04
Best Estimate	n/a	0.001	0.02

Description and scale of key monetised costs by ‘main affected groups’

We would not expect the licence renewal to impose significant costs on any affected groups (nor is there any issue with these costs). The costs to Ofcom would be negligible, as the process of renewing licences is not significantly time consuming, and would largely be absorbed into Ofcom’s regular course of business. The cost to Ofcom of renewing one individual licence would, at the very most, be in the low £100s. Assuming all 63 licences plus 3 national licences that expire from 2017-2020 are renewed, the cost would be in the approx. range of £13,200 to £39,600 distributed across the years 2017 to 2023, using a cost of £200 for a min and £600 as a max per licence. These costs are ultimately met by the licensees through charges set by Ofcom.

Other key non-monetised costs by ‘main affected groups’ The non-monetised cost of not re-opening the market to competition is the barrier to entry to any potential new entrants. By renewing the current licences for a further 5 years, any existing station (broadcasting on DAB or the internet) or new ventures stations who may have planned to bid for one of these licences would be unable to do so. There are no practical means of making sufficient suitable FM spectrum available as an alternative for stations wanting to broadcast on FM. It is not possible to monetise the potential impact as the number of potential new entrants is unknown. Past evidence suggests the number of potential entrants if the market was re-opened would be small, and hence we believe any cost will be small. It is important to note that any demand for analogue licences is likely to reduce as their perceived value declines as digital listening continues to grow.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)(£m)	Total Benefit (£m)(Present Value)
Low	n/a	0.6	2.5
High	n/a	1.6	7.2
Best Estimate	n/a	1.1	4.9

Description and scale of key monetised benefits by ‘main affected groups’

The quantifiable benefit of renewing the licences for a further 5 years is the cost saving to existing licensees from not having to reapply. Through the proposed extension, current licence holders would not bear the cost of re-bidding and buying a licence for a further 5 years from their expiry date. Taking account of representations made during the consultation, the anticipated cost for the licence renewal process for all 63 local licences is in the range of £2,758,856 and £7,798,856, assuming a cost of between £20k and £100k per application plus the costs of buying a licence, which were calculated using data from Ofcom.

Other key non-monetised benefits by ‘main affected groups’

The main benefit of extending licences is increased stability for existing radio stations by eliminating any uncertainty of the effects of re-tendering and opening up analogue licences to competition. The primary benefit of this is that it will provide commercial broadcasters with the certainty to continue to invest in digital radio, in line with Government policy and to work towards a managed transition to digital, to which Government remains committed. It would also allow them to focus investment on developing their business in the face of innovative competition from online streaming services.

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

We are assuming that the progress to develop digital radio coverage and listening continues to grow, creating more opportunities for new entrants to build businesses without analogue.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies a
Costs: 0.0	Benefits: 0.8	Net: 0.8	Yes	OUT

Evidence Base (for summary sheets)

Problem under consideration

The Digital Economy Act 2010 amended the 1990 Broadcasting Act to allow Ofcom to grant a further licence extension to FM and AM stations licensed before March 2010 for one period of 7 years, on the condition that those stations are also broadcast on DAB. The seven year extension was timed to reflect a switch-off of analogue radio services by 2017-18, and flexibility to extend licences further was not included in the legislation in order to create certainty of direction for industry.

Rationale for intervention

In December 2013, the Government confirmed that with digital's share of listening not having reached 40% that it was not the time to confirm that a switchover to digital would take place or set dates. It is possible that the Government will be in a position to set a timetable in early 2017 once 50% of all radio listening is digital. The delay in setting a timetable for switchover, however, leaves a number of stations facing analogue licence expirations from late 2017. All three national licences are affected (Classic FM, Absolute, and TalkSport) as set out in table 1 below:

Table 1

Station	Expiry Date	Relevant Date*
Classic FM	28/02/2018	28/2/2017
Absolute (AM)	30/04/2018	30/4/2017
TalkSport (AM)	31/12/2018	31/12/2017

** The relevant date is the point by which the existing licensee would ordinarily be required to renew and is set at 12 months to allow Ofcom to re-advertise and award the licence and for a new station to launch*

In addition, a total of 63 local licences (examples include Capital in London and Clyde FM in Glasgow) have had their second renewal from Ofcom and are due to expire before 2020. The first of these roll-over licences will expire in October 2017 (XFM in Paisley).

We therefore consulted on whether to amend s103B and 104AA of the Broadcasting Act 1990 to allow Ofcom to grant a further extension to those licences for a specified period of time, as well as specifically address the options for the duration of licence extensions, and the potential impact of each option on competition. Our preference was to allow renewal of the licences in question for five years (twelve years if they had not yet had a second renewal). That continues to be our preferred option, and the change would support the Government's strategy of supporting the transition to digital radio.

Policy objective

The objective is to amend s103B and 104AA of the Broadcasting Act 1990 to allow Ofcom to grant one further five year extension (12 years for those licences which have not yet had a second renewal) to those licences.

The proposed option will re-cast existing legislation, rather than create entirely new legislation. S.103B of the Broadcasting Act 1990 permits national commercial radio licences a further renewal of seven years, and s.104AA permits the same for local commercial radio licences. The proposed amendment will simply extend this renewal for a further five years if the licensee has already benefitted from this renewal, or a total of 12 years if they have yet to apply for the renewal. This therefore also means the total licence length then becomes consistent with the standard length of licence issued by Ofcom for new licences, which is 12 years.

Given the Government's continued commitment to a digital radio switchover, the intended effects are to promote certainty and continuity in order to allow the radio sector to continue to invest in DAB, whilst still providing audiences with quality content.

Description of options considered (including do nothing)

What is required is an amendment to s103B and 104AA of the Broadcasting Act 1990 to allow Ofcom to provide one further licence renewal for stations. Without this, Ofcom will need to retender the licences to all comers and assess applications on a beauty parade basis, based on statutory requirements including the range and quality of programming.

We consulted on three policy options:

1. Do nothing and allow licences to expire at the end of the term and be re-advertised
2. Extending licences for an additional 5 year term
3. Extending existing licence term indefinitely/for an alternative period of time (until a switchover)

Small and Micro Business Assessment

As this measure is not a direct new regulation, it is re-casting current legislation which by default already covers small and micro businesses, it automatically will include those small and micro businesses. Using the HMT Green Book definition of small and micro businesses, there are 37 small businesses and 25 micro businesses who hold licences which will be affected by this proposal. The 3 national licences affected are also considered small businesses.¹

If these radio stations were exempt from the policy proposal, they would lose out on the benefits created by the preferred option to extend the licences for a further 5 years. They would have to go through the costly process of re-bidding for their licences which could mean their services to the public suffer due to lack of resource and money available as it would be focussed on the bidding process. Smaller local licences are also less likely to be contested, which means that those licensees would face large expenditure to keep a licence that no other party is likely to compete for anyway.

However, it is important to note that the commercial radio sector is highly consolidated. So whilst each local licence is run as a separate local business, many of them are ultimately owned by larger national radio groups such as Global or Bauer.

OITO assessment

The preferred option to extend licences is in scope of One in Two Out and counts as an OUT. This measure would be acting as a re-cast of current legislation, hence not implementing any new legislation. Costs and benefits to business are summarised in the below table 2. Guideline prices of licence renewal, retendering and bidding provided by Ofcom and the industry allows us to estimate the share of total costs and benefits from renewing each licence in each year they expire with relatively great precision in table 2. The table illustrates the cost a renewal would create and the benefits, which are the savings from not having to re-bid.

Table 2 – Estimated costs and benefits of renewing in each year the re-cast applies.

	Year	0	1	2	3	4
Option 2 – renewing licences	Best estimate - Cost	0.0004	0.0004	0.0156	0.0068	0.002
	Best estimate - Benefit	0.07	0.12	3.16	1.49	0.44

The best estimate of the total cost discounted is £0.02m and the best estimate of the total benefit is £4.9m.

On the benefits side, we expect all quantifiable benefits to go to businesses as a cost saving from avoiding the expensive process of re-bidding and tendering all existing licences. These figures lead to an Equivalent Annual Net Cost to Business (EANCB) of **£-0.82** over the 5 year period in 2014 prices to

¹ For the purposes of these definitions, stations that are part of radio groups are treated as separate entities from the parent company

businesses, creating a small net benefit to business. It can be seen the small cost of renewing is much less than the cost industry would incur to re-tender, shown in table 1, hence we see this measure qualifying as an out.

Competition assessment

DCMS recognises that its preferred option (i.e. to allow renewal of the licences in question for a further five years, or 12 if the licensee has not yet received its second renewal) could impact on competition in the commercial radio market. We therefore commissioned Value Partners to undertake research to examine the potential competition impact of our proposed policy.

Value Partners concluded that to do nothing, and allow the licences to expire, would best serve the interests of the consumer and the commercial radio industry as a whole. Their reasoning was:

1. There are indicators that there is sufficient, viable demand from incumbents and new entrants for FM spectrum to warrant a competitive process
2. Competition on the open market will force licensees to strengthen their offer to listeners, particularly of local content, which stations are required to provide as a condition of their licence
3. The DAB platform is now sufficiently developed that commercial radio operators are unlikely to disinvest in digital radio as a result of having to re-compete for their analogue licences.

DCMS acknowledges there are merits in the arguments presented by Value Partners. However, we believe their three main arguments are only partially developed and underplay three important points,:

1. Whilst we agree that there are indicators that many licences would be contested, evidence shows it is unlikely in most cases that anyone other than the incumbent would be successful. Evidence from past licence competitions shows that only around 10% of re-advertised licences have been awarded to a new operator/entrant. This is partly because, having been on air for anything up to 19 years, incumbents have likely built a good track record of delivering content that listeners enjoy, and as such have compelling existing evidence to draw upon in bidding for a licence. Without that same track record and evidence of listener satisfaction, a new entrant that may find it harder to demonstrate it could deliver a similarly successful service. We think it is therefore unlikely that a new entrant could win a competition in most cases. Whilst it is possible a small number of new stations may come into existence as a result of a wholesale re-advertisement of licences, Government does not consider that the hypothetical benefit to listeners and industry of a small number of new services outweighs the cost to the wider industry of a wholesale re-advertisement process. It is worth noting that over 80% of listeners are satisfied with their local radio station². This also suggests there is little consumer benefit to be gained from a widespread re-advertising process.
2. On the point about open competition provoking licensees to strengthen their content offer to listeners, we note that responses from industry to our consultation demonstrate that there is a realistic risk that the cost to licensees of reapplying for their licences would undermine investment in content. For example, one respondent commented: "The uncertainty of operators having to re-apply for all their licences would dramatically reduce investment in content and in the development of new services, which would in turn severely reduce competition." We therefore believe that re-advertising licences could have a detrimental effect on content, rather than improving the offer to listeners as has been suggested by Value Partners.
3. Whilst we agree that the DAB platform is now more embedded within the radio ecology than it was at the time the Digital Economy Act was enacted (for example with greater availability of digital stations and continued growth in digital listening), evidence from the consultation demonstrates that renewal of analogue licences remains a strong incentive for operators to continue to invest in digital radio. For example, one respondent commented: "Such an AM & FM

² Attitudes to Local Radio (a summary of the findings of a quantitative survey of local radio listeners), Ofcom, July 2013

expiry comes at a critical investment period for digital migration. It is the point in time when most emphasis on the development of DAB as the de facto standard for Broadcast radio will be taking place. Introducing licence instability into the sector at this sensitive time would be highly destabilising to the revenues that are supporting DAB development just at the point where the radio industry is overall navigating the sector wide structural changes brought about by web and mobile.” Government therefore continues to believe that a further renewal for those analogue licences is necessary in order to continue to drive momentum towards digital.

Finally, Value Partners did not have time to develop a quantitative model to underpin the qualitative evidence and their assumptions and conclusions. This means there is at present no data on the scale of the likely demand for each licence that is due to expire. Although it would be possible to collect more data here, the challenge is the separation of possible expressions of interest from the likelihood of interest arising in 3-6 years time. In addition the report gives insufficient weight to the quantifiable costs to industry of re-licencing, the cost to Ofcom, plus the risk that content quality is reduced. With the difficulties of getting more compelling evidence on the benefit of competition, we cannot equally say with certainty that option one, re-advertising the licences, will lead to benefit. What we do know is re-advertising licences will increase costs to business. We have more certainty on the benefits of option 2 of not advertising; option 1 will simply create a significant risk to business of increasing their costs with potentially little or no benefit

We believe that, whilst there are merits to Value Partners’ key arguments, the lack of quantitative evidence to support their preference for option 1 (do nothing) makes it difficult to justify option 1 fully, especially given historical trends and data, and the arguments we have heard from the sector on the disruptive impact it could have, and the need – given Government’s continued commitment to a digital radio – to maintain momentum towards a switchover.

Value Partners’ final report is appended as an annex and the costs and benefits of each proposed option, including in competition terms, are outlined in more detail in the rest of this Impact Assessment.

Calculating the impact on competition

In order to make the greatest attempt possible to capture the impacts on competition, we have used an approach to illustrate possible changes in consumer welfare. However, because robust data is not available to fully estimate the impact on consumer welfare the IA can only provide an illustration of the possible impact on consumers. The analysis below shows that even with limited evidence we can be confident that net impact on consumer welfare is likely to be small.

Impact of competition on the welfare of consumers

Impact on radio listeners who gain a new market entrant after-market competition for licenses

To understand the impact on consumers of option 2 (renewing current licences for five years) we need to understand the benefit consumers would have gained from a new entrant entering the market. Consumers in areas with a new entrant could either benefit from increase quality or lower prices. Given that radio is free at the point of consumption (ignoring the fixed cost of a licenses and hardware) we only need to look at the change in quality of service provided by a new entrant.

To make an estimate of the maximum potential increase in consumer welfare, we have assumed that new entrants would offer a higher quality service. We do not have evidence to value the marginal increase in consumer welfare, but previous studies may provide an indication of the size of possible impact in £s.

- £2 per month for BBC radio – Work Foundation (2006), *Willingness to Pay for the BBC during the next Charter period a report prepared for the Department for Culture, Media and Sport*, Work Foundation. In 2013/14 prices this is £2.3 per month or £28.20 per annum.
- Maximum amount radio listeners would be willing to pay monthly for the existing radio service was £2.30 per household - Radio Communications Agency (DTI), (2000) ‘*Survey to determine the consumers’ surplus accruing to TV viewers and radio listeners*, Aegis Systems Ltd. In 2013/14 prices this is £3.1 per month or £37.5 per annum.

These studies measure two different products, RCA (2000) captures all radio and Work Foundation (2006) just the BBC. To understand the value of commercial radio, the difference between these estimates is taken to arrive at a value of £9.35 per year (£37.50 - £28.20), which could represent the annual WTP for radio less the BBC. The RCA study shows in terms of digital services the WTP for national (non-BBC stations) is around £17.10 per year. Therefore the likely range may fall somewhere between £9.35 and £17.1 per year.

If we were to assume that a new entrant was to offer more local content (currently a minimum of 7 hours is allowed), then assuming the current incumbent only provides 7 hours, which is valued at £2.70 (7 hours is 29% of the daily output, and 29% of £9.35 is £2.70) and the new entrant produces an extra 3 hours of local content, then the marginal increase in an individual annual WTP has increased by £0.34 (3 hours is 12.5% of daily content).³ Using the higher value of £17.1 per year from the RCA study would produce a give an increase in WTP of £0.62.

Overall the calculation shows that the benefit to any individual consumer (34p to 62p per year per person), is likely to be low, even under the strong assumption that there would be a net improvement in quality.

Impact on consumers who still have an incumbent after market competition for licenses

As well the benefit to consumers in areas that have new market entrants we also need to take account of the welfare loss to consumers in areas where an incumbent could have instead invested money during the bidding process on radio content (in the highest case scenarios this could be up to £100,000 just in terms of bidding costs). This loss of investment from incumbents could lead to lower quality from consumers, leading to lower WTP for radio. Unfortunately without further information on radio investments we cannot make a reliable estimate of the impact of this loss of investment on the quality of the incumbents' radio output.

However, even with a small decrease in WTP caused due to lower levels of investment, at an aggregate level the impact is likely to be much larger than above, as there are far more consumers that will be affected in areas that still have an incumbent license holder (this is because past evidence shows that we expect only around 10%, or between 6-10 of the c.60 affected licences that could be contested, to be awarded to new entrants.

Therefore the Net Effect on total consumer welfare is likely to be positive in option 2 (five year renewal). Option 1 may in fact reduce consumer welfare if consumer welfare loss is larger for license areas without a new entrant.

These calculations also ignore any impact on advertising revenue if consumer satisfaction goes down, which would be a further cost to business.

While this is just an illustration using plausible estimates of key parameters, it shows that the consumer benefits from competition over this finite period are likely to be small, and potentially outweighed by the impact on investment. Our presumption is that increased competition over a longer period, where licences were more easily contestable, would bring more significant benefits to consumers.

³ In this we also assume that the content pushed out by the extra 3 hours of local content has no value.

Option 1

This option is to do nothing, and allow the licences in question to expire and be re-advertised by Ofcom, following which all licensees would have to re-compete for their licence. In this scenario the relevant legislation would not be amended.

Costs

Monetised costs

The primary monetised cost of this option is to established incumbents, who, faced with having to bid for their licence, would probably spend between around £2,758,856 and £7,798,856 in totality. This is explored in greater detail underneath the narrative of option 2 benefits. Since this is the counterfactual option and is retaining the status quo, although the process would be costly to existing radio station, this is counted as a zero cost option as it is not imposing any new legislation or additional costs to the status quo. These costs we expect the re-tendering process to create are instead counted as a benefit in the form of a cost-saving to businesses in option 2 since they would not have to re-bid, hence saving themselves these otherwise, inevitable costs.

Non-monetised cost

Competition impact

DCMS recognises that in the majority of cases, competition can be viewed as a positive and we would ordinarily look to open the market up to competition as appropriate. We note that the findings of the research by Value Partners suggests that there would be interest from new entrants in bidding for newly re-advertised licences – fourteen out of the nineteen stakeholders interviewed stated that for many of the licences there would be competition in a new licensing process. However, these findings were largely qualitative and neither Value Partners nor consultation respondents provided specific quantitative evidence to corroborate/quantify this assumption. Although we agree that national licenses and some local licences would be contested, there is not sufficient evidence to suggest that they would be seriously contested by a significant number of entrants (see above competition assessment).

Furthermore, historically, contested licences have tended to be re-awarded to incumbents: of the total number of licences (c.100) that have been re-advertised by Ofcom since 2003, only around ten have proceeded to a full competition and in most cases the licence was re-awarded to the incumbent. This calls into question whether there is likely to be any value in making incumbents reapply if they are only to be re-awarded to the same licensees.

Cost to consumers

In addition to this, research by Ofcom demonstrates that listeners are satisfied with current offerings, with over 80% of listeners saying they are satisfied with their local radio services⁴. This indicates there is not significant demand from consumers for a shake-up of existing services. We therefore believe any potential benefits of any potential competition for licences would not be outweighed by either (i) the costs to industry and disruption caused to the sector in having to re-bid for licences or (ii) uncertainty for consumers about whether their favourite services will continue. This assumption is shared by respondents to the consultation, who have commented that “competing for FM licences is a relatively high risk and short-term strategy and we therefore see limited opportunities for increased competition between stations or groups”, and “our experience of reapplying for analogue licences within the current Ofcom administered licensing framework is that an incumbent typically retains its licence unless Ofcom has grounds for concern about the licensee’s historic performance.”

Whilst it is arguable that there could be benefits to consumers resulting from increased competition between the stations, such as potentially more choice and a more diverse broadcasting offer, it is also possible that the bidding process for the licences could impact negatively on the content of broadcasting.

⁴ *Ofcom internal information* Attitudes to Local Radio (a summary of the findings of a quantitative survey of local radio listeners), Ofcom, July 2013

Instead of focusing on delivering a quality service with interesting and unique content, licensees are likely to have to divert some financial and human resource towards winning the licence. This assumption is corroborated by respondents to the consultation who commented “if licences are not renewed, there will be a significant reduction in investment in content, marketing and the development of digital stations and services. This can only be bad for listeners”, and “the uncertainty of operators having to re-apply for all their licences would dramatically reduce investment in content and in the development of new services, which would in turn severely reduce competition”, and finally “rather than focussing primarily on the quality of their output (along with the development of new digital services, improving coverage or content for listeners), radio operators will be forced to devote time and investment on retaining their analogue licences.”

Investment in digital radio

Further to this, if option 1 was taken forward, the incumbent licensees’ continued investment in digital radio would probably be seriously undermined. Whilst a switchover remains Government policy, it is necessary to maintain encouragement of investment in digital by industry. Respondents to the consultation commented variously:

- “The central incentive for commercial radio operators to invest in DAB has been ‘AM & FM’ licences until such time as ASO [switchover] is achieved. Without the continuing confidence and security of this provision, the commercial sector will struggle to justify the additional investment required to deliver the essential coverage and listening criteria set by Government for a successful ASO.”
- “A further extension of our FM licences would provide us with the confidence and security to continue our investment and promotion of digital, in particular DAB, to ensure that the maximum amount of listeners are carried from the current analogue platform to digital.”
- “This approach (Option 2) would enable continued support and investment in digital radio.”

The licences in question are able to be renewed only on the condition that the incumbent provides a service on DAB. This inherently means the licensee will need to invest in DAB to some degree. However, a new entrant who won a newly-advertised licence would not be required to broadcast on DAB as a condition of the licence, and we therefore consider that it is less likely they will invest, or invest as heavily, in digital radio.

Small and micro businesses

The effect on the smaller local stations is also a consideration. In the study carried out by Value Partners, in interviews they conducted with stakeholders in the industry it was noted that: “the majority of small local stations have limited revenue, they just scrape by” and “if you have less than 500k listeners you are struggling.” The financial impact on smaller stations having to spend significant amounts of money and time on winning a licence is therefore likely to be greater than the effect on the larger stations. We would also assume, given the responses to the consultation indicate that it is larger licences that are more likely to be contested, that competition for the small local licences would be minimal - hence these stations could be incurring large costs for little need. We are unable to demonstrate this fully as we lack data on the exact costs to these small business and detailed information on their finances, however from the independent research, market research and interviews, we can be confident there would be a significant negative impact on smaller local stations due to their smaller budgets. We also believe the impact would be greater as smaller local stations are unable to save money by syndicating or sharing fixed costs across a network of stations in the same way that larger radio groups are able.

Benefits

Due to the lack of quantified evidence and data surrounding the impacts of opening the market to competition it is not possible to obtain any quantification of the benefits option 1 would create. We can however, give a relatively accurate qualitative narrative surrounding the potential benefits re-tendering may induce, based on evidence and trends from the industry.

Non-monetised benefits

New entrants

The main benefit of this option would be that the market is opened up to potential competition, allowing new entrants and radio stations which currently don't hold a licence the opportunity to bid and obtain one. However, as we have outlined in the costs of this option, there is little quantitative evidence to confirm that there would be significant interest in newly re-advertised radio licences, or that the competition would lead to a better outcome or an improved listening proposition for consumers.

Quality of service

However, given that there is at least some potential for new entrants in this scenario, a second benefit could be an opportunity to re-secure greater commitments to high quality and varied content from licensees. We could assume, based on historic licence re-advertisement data from Ofcom⁵ that around 10% of re-advertised licences are awarded to a new operator/entrant (rather than the incumbent). This may, potentially, result in a greater commitment to high quality content, including for example local news and information, and potentially a slightly greater diversity of stations. This could amount to between 6-10 new stations across the UK.

However, the bidding process is by no means a guarantee of improved content. For example, at present stations are able to apply to Ofcom for permission to amend the licence conditions to which they were originally bound on the basis of what they said they would offer as part of their successful bid. The licensing process, whilst adequate for the occasional renewals Ofcom deals with at present, has not been used for large scale competition since the mid-1990s. Therefore if option 1 was pursued, Government would need to review the entire licensing framework for radio to ensure it is capable of securing better quality and wider choice.

Furthermore, as more radio listening goes digital (50% digital listening expected by 2017/18) the difference between the analogue and digital regimes (the latter of which is much lighter-touch) will become much more apparent: it will be difficult to maintain the existing content requirements, which are only there as the result of the analogue licence conditions – the ability of a mass licensing process for analogue licences in 2017-2020 to drive better quality against the trend towards digital, is therefore likely to be limited.

Finally, it is possible that whoever wins any given licence simply decides to sell it, if it is an attractive analogue licence (this may be the case with the local licences in larger, more urban areas).

⁵ Internal information from Ofcom

Option 2

Option 2 looks to renew the current licences held by stations for a further five years from the date of the first expiry, which is October 2017. Current licence holders would not need to go through the process of re-bidding for their licence, it would simply be renewed for a further 5 years from the date it expires. This impacts 63 local radio stations and 3 national stations set out in table 1.

This is Government's preferred option, and will allow a further five year renewal of the affected licences, or 12 years if the licence in question has not yet received its further renewal.

Costs

Monetised costs

We would not expect the licence renewal to impose significant costs on any affected groups (nor is there any issue with these costs). The costs to Ofcom would be a possible small administration cost to extend the licences, however this would be negligible, as the process of renewing licences is not significantly time consuming, and would largely be absorbed into Ofcom's regular course of business.

To highlight this small impact we know from Ofcom's figures that the cost of renewing one individual licence would, at the very most, be in the low £100s⁶. Assuming all 63 licences plus 3 national licences that expire from 2017-2020 are renewed, the cost would be in the approx. range of £13,200 to £39,600 distributed across the years 2017 to 2023, using a cost of £200 for a min and £600 as a max per licence. These costs are ultimately met by the licensees through charges set by Ofcom to buy the licence. . Table 3 shows the cost in each year this measure is implemented taking the number of licences which expire in each year and multiplying these by the minimum and maximum estimated cost for renewal.

We are measuring the impacts of each of these options over 5 years starting from 2017. We are starting at 2017 as this is the year the first licences will expire. We are carrying the impacts on over 5 years because it is anticipated that, based on current trends, a digital radio switchover could take place by 2021. At this point, the role analogue radio plays in the wider radio ecology will have become much smaller. This measure will therefore need to be re-assessed again in 5 years' time, certainly when a decision has been made on a digital radio switchover and a timetable for this is set, and probably as part of a more holistic examination of the entire regulatory framework for radio.

Table 3 – Estimated costs of licence renewal

Year	0	1	2	3	4
Annual Cost 1 - Best Estimate (£m)	0.02	0.02	0.94	0.41	0.12
Low	0.01	0.01	0.51	0.22	0.07
High	0.04	0.04	1.54	0.67	0.20

Non-Monetised costs

Competition

The potential benefit of improved services and content for consumers through increased competition would not be realised if the licences were to continue to be held by incumbents for a further 5 years after the expiry date. However, as we have already outlined (see competition assessment), there is little evidence that a competitive process would increase the range of services on offer, nor is there any evidence that listeners are dissatisfied with the current offer. As already indicated, research by Ofcom demonstrates that listeners are satisfied with current offerings, with over 80% of listeners saying they are satisfied with their local radio services and historically, contested licences have tended to be re-awarded to incumbents: of the total number of licences (c.100) that have been re-advertised by Ofcom since

⁶ Ofcom internal information

2003, only around ten have proceeded to a full competition and in most cases the licence was re-awarded to the incumbent.

Innovation

Furthermore, Ofcom have recently advertised a second digital national multiplex. DAB as a platform has a far greater capacity than analogue, spectrum on which is scarce, so we expect this will greatly increase opportunities for new entrants looking to come into the radio market. Therefore we can argue that this option does not and will not prohibit entry into a market that is transitioning from analogue to digital. .

Growth of digital radio

It could be argued however that without competition there is no incentive for the current licence holders to innovate and improve their service and delivery to the consumers, and DCMS acknowledges that this option could potentially be perceived to be delaying an inevitable re-opening of the market by 5 years. However, it remains Government policy to work towards a switchover to digital radio, and based on current progress we think it is probable that the required market conditions (50% of all radio listening to be to digital sources) will be met by 2017-18. Therefore, in line with current Government policy, and with the continued growth of digital listening and a clear move towards a digital transition, the analogue platform is likely to play a much smaller role in the wider radio ecology. By this time, DAB is likely to be the dominant platform and as such, we do not consider that this option delays a wholesale, widespread relicensing process, as it may not be needed in its current legislative guise 5 years from 2017.

Benefits

Monetised benefits

The quantifiable benefits of option 2 fall to the businesses whose licences are due to expire in the period 2017-2023.

If we were to do nothing and allow the licences to expire, these businesses would have to meet the cost of putting together a bid and buying the licence. However, if their licences were renewed for a further 5 years from the time of expiry, the costs of re-bidding and buying the licence would not be incurred, thereby generating a cost saving for the affected businesses.

The cost savings to business as a result of being allowed a further licence renewal can be demonstrated through calculating the potential costs incurred if incumbents were required to re-bid and re-buy a licences. These calculations are based on the following assumptions:

Assumptions underpinning cost calculations

- Value Partners conducted a research piece and spoke to a range of industry representatives. During discussions, the costs to an incumbent to re-bid for a licence were estimated to be between £20-100k. These estimates were corroborated by written consultation responses.
- There would be a higher costs to new entrants, however these cannot be counted as business savings as these costs are optional and would not necessarily be incurred.
- The current number of incumbents holding a licence is 63 local and 3 national. We have not included data on the cost of a national licence as applicants are required to submit a cash bid (unlike local licence applications which are awarded via 'beauty parade') and no data is available on what potential applicants are likely to be willing to pay.
- Table 4 shows the cost of a licence depending on population size in the area. Deflating the prices to 2013 prices, we have used these as indicative costs to buy a licence today.

Table 4 – Indicative cost of licence based on population size of an area

Ofcom category	Population	FM (£'s)	AM (£'s)
A	4.5m	57,208	16,590
B	1m-4.5	28,604	9,153
C	400k-1m	11,442	4,005
D	0-400k	5,721	1,144

(Prices in table deflated to 2013 prices). Source: Original costs- <http://licensing.ofcom.org.uk/radio-broadcast-licensing/analogue-radio/apply-for-licence/re-advertisement/notes/>

To calculate the benefits to business of extending the licences for a further 5 years we worked out the number of licences in each Ofcom category due to expire and multiplied this number by the cost of the licence for that category to obtain the overall costs of licence purchases in each category.

Table 5

Ofcom licence category	no. of licences	Price of licence	Cost for incumbents
A	12	£ 57,208	£ 686,499
B	19	£ 28,604	£ 543,478
C	15	£ 11,442	£ 171,625
D	17	£ 5,721	£ 97,254
TOTAL	63		£ 1,498,856

Table 5 shows the cost of purely buying their licences. We have added in the costs we expect applicants to incur to create the bid for the licences, which we have assumed to be between £20k and 100k.

We then added the cost of the bids to the licence fee costs to obtain an overall cost to incumbents. We have split the bid cost of 20-100k into 3 categories to obtain a min and max overall cost range:

Low = £20k
 Med= £60k
 High = £100k

Table 6 below shows, assuming all incumbents will have to re-apply for their licence and put a bid together, the costs would be the price of buying the licence in table 4 plus either the low, med or high price or rebidding. Table 6 summarises the totals of the addition of these two figures.

Table 6 – Total cost of re-applying

Cost of application	63 applications
Low (£20,000)	£2,758,856
Med (£60,000)	£5,278,856
High (£100,000)	£7,798,856

Table 6 shows that the total cost of re-applying and bidding is between £2,758,856 and £7,798,856. Hence, we can assume that extending the licences by a further 5 years is saving the incumbents between £2,758,856 and £7,798,856, which is the range of costs they would have to pay to re-bid and buy their licences if option 1 “Do nothing” was taken forward.

As already outlined, in line with current Government policy on digital radio, with the continued growth of digital listening and a clear move towards a digital transition, the analogue platform is likely to play a much smaller role in the wider radio ecology in future. By this time, DAB is likely to be the dominant platform and as such, we do not consider that this option delays this wholesale relicensing process.

Non-monetised benefits

Competition

The Non-monetised benefits of option 2 are the counter arguments of the costs of option 1.

DCMS recognises that opening up to competition is normally the most appropriate course of action. However, based on the cost savings calculated in option 2 and the lack of quantitative evidence on the number of potential new entrants and extent of any competition, on top of the notion that the industry is fully moving towards digital platform which will open up further opportunities for new entrants in the near future, we consider that the benefits of renewing the licences now for a further 5 years will outweigh any possible benefits to any potential new entrants (all of which remain hypothetical due to the low amount of evidence).

While option 2 does not allow the potential benefits of opening the market to competition as in option 1, it generates a cost saving to businesses of almost £8million, allowing them to continue to innovate and improve their broadcasting offer to the public. On top of the cost saving to business, the lack of open competition for the affected licences for a further five years is lessened by the recent advertisement of a second digital national multiplex. DAB as a platform has a far greater capacity than analogue, spectrum on which is scarce, so we expect this will greatly increase opportunities for new entrants looking to come into the radio market. As digital listening grows, we also expect analogue to be a much smaller part of the radio landscape.

Stability for listeners and industry

Option 2 is the low cost way forward and will offer continuity to those holding licences in the market at a time when the sector's advertising revenues have only just begun to recover and challenges from alternative forms of audio content continue to put pressure on the industry. In line with Government policy on digital radio, we also want to encourage the sector to continue to invest in digital radio, and we believe offering stability through a further renewal will best allow stations to do that. A five year renewal (i.e. the shortest renewal period proposed in our consultation) will drive momentum towards a future digital transition. An extension of existing licences will provide stability in the market, without any of the uncertainty of the effects of re-tendering and opening up the licence market. It will provide commercial broadcasters with confidence and allow them to continue to invest in and prepare for a managed transition to digital. It would also allow them to focus their time and finances on developing more innovative programme content for listeners.

Cost and Benefit analysis

Taking the above qualitative evidence of the costs and benefits into consideration, on top of the quantitative figures we have, it can be seen that the benefits of option 2, renewing the licences, outweigh any costs that may be incurred if they were left to expire.

Table 7 sets out these figures. The overall impact of option 2, extending the existing licences for a further 5 years from the expiry date, is a positive net present value of £4.8million, on top of the qualitative benefits we have set out. The Equivalent annual net cost to business in 2014 prices is £-0.82million, this shows that extending the licences is creating a benefit of £0.82 million to businesses over the 5 year appraisal period.

Table 7 – Overall NPV and EANCB table

Cost of Option 2 (preferred option)		
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices)
4.84	4.84	-0.82

Option 3

Option 3 would be to allow the renewal of the licences in question for an indefinite period, or until a digital radio switchover.

Costs

Option 3 is a restrictive policy option. This option entirely prevents any entry to the market in the future, creating a permanent barrier to entry for any new potential businesses wanting to start up a station or those which currently do not hold a licence. Extending the licences indefinitely will prevent any competition in the radio licence market and industry for an indefinite period of time or until switchover happens. With an indefinite licence, current licence holders may also have less incentive to switch over to DAB as they will be able to hold their original FM licences for an indefinite period of time. Stations, with the guarantee of an indefinite licence until a switchover occurs, would perhaps not invest as concerted in digital radio as they might otherwise and might instead choose to seek maximum financial value from their analogue licences. A shorter renewal period therefore strikes a more effective balance between providing certainty to industry and driving momentum towards a digital transition.

Innovation

Additionally, an indefinite licence will mean businesses have no cost reduction incentives, no incentives to improve technology or innovate, and no incentive to improve their offer to consumers. These are all negative impacts which cannot be quantified but are based on strong economic theory.

Restrictions

An additional cost of extending the licences indefinitely is that if at any point in the future a formal switchover to digital radio was not considered to be an appropriate course of action, there would be no room to re-advertise the current licences held, hence guaranteeing those businesses currently holding licences security of those licences indefinitely.

Benefits

The benefits of extending the licences indefinitely would be similar to those outlined in option 2, as the principle of an extension of the licences will have the same impacts. The incumbents currently holding licences would be guaranteed certainty and stability to deliver their services on analogue for an indefinite period of time.

The other benefits are those which are discussed in option 2 in relation to the cost saving to industry as a result of not being required to re-bid for their licences. This benefit would be at least £2,758,856 and £7,798,856. If the extension of the licences were to extend further, up to a point where other licences were going to expire and these were just renewed, the quantified cost saving benefit would arguably be even more. Nevertheless, the costs lost competition in the market would increase with time, hence by a certain point the cost of lack of competition in the market and the impacts of the lack of competition would significantly begin to outweigh any cost-saving benefit to the businesses.