

Title: Removal of TV Licence notification requirement for Retailers IA No: DCMS050 Lead department or agency: DCMS Other departments or agencies:	Impact Assessment (IA)
	Date: 27/02/2012
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Alastair Dourgans - Tel: 020 7211 6471
Summary: Intervention and Options	RPC: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
-£143.51	£28.11	-£2.49	Yes	OUT

What is the problem under consideration? Why is government intervention necessary?
The Wireless Telegraphy Act 1967 (as amended) obliges retailers to notify TV Licensing of any sales or rentals of television sets. The Act specifies the type of information a retailer must record from someone who buys or hires a television set, which is then notified by the retailer to TV Licensing within 28 days of the purchase or rental date. Failure to provide notification is an offence under the Wireless Telegraphy Act. The requirement on retailers was originally intended as one of the ways to stop Licence fee evasion. The Government believes that the requirement on retailers to inform TV Licensing every time someone buys a TV is an unnecessary burden on retailers. Removing the requirement requires legislation.

What are the policy objectives and the intended effects?
Policy objective is to repeal out-of-date regulations, remove unnecessary burdens on retailers, freeing them to grow and create jobs.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
Option 0 - do nothing option: This option is included to serve as a theoretical baseline against to assess the impact of Option 1- which is the Government's preferred policy option.
Option 1 - Remove out-of-date regulations and unnecessary burdens on retailers. This option will help retailers to focus on what they do best - create jobs and help to grow the Economy.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year						
Does implementation go beyond minimum EU requirements?			N/A			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			Traded:		Non-traded:	

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

Signed by the responsible Minister: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description: Preferred Option vs Do Nothing

FULL ECONOMIC ASSESSMENT

Price Base Year 2009	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: -143.51

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0		
Best Estimate	0	-4.88	-35.34

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

BBC enforcement costs increase after 2013.

Licence issue costs, retailer costs and customer cost all reduced after 2013.

Effects on customer and BBC costs are not relevant to one in one out calculations because BBC is classed as neither a business nor a civil society organisation.

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

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		-24.95	-178.40

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

BBC Revenues are reduced compared to Do Nothing Option after 2013.

Effects on BBC Revenues are not relevant to one in one out calculations because BBC is not classed as neither a business nor a civil society organisation.

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

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

1. Each notification costs 32.5p and customers spend 2.5 minutes each time.

2. All licenses issued are for coloured TVs;

3. TV-related equipment has a useful life of 7 years; Once in the TV Licensing database, licence fees are payable during the life of the TV.

4. New registrations continue at 2011 levels for the foreseeable future; After introduction of Preferred Option costs to TV Licensing of issuing the same number of licences rise by 9p per licence.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: -2.49	Benefits: 0	Net: 2.49	Yes	OUT

Evidence Base (for summary sheets)

Reference

No.	Legislation or publication
1.	Wireless Telegraphy Act 1967
2.	Ofcom's Communications Market Report 2010
3.	Ofcom's Communications Market Report 2011
4.	GfK research for DCMS

Background

1. The British Broadcasting Corporation (BBC) operates under a Royal Charter to serve the public interest. The Charter specifies a number of Public Purposes which the BBC must serve. To this end, the independence of the BBC is guaranteed in terms of the content of its output, the times and manner in which this is supplied and the management of its affairs.
2. The BBC also has access to a source of funding that is relatively independent of political and commercial influence. Every TV operated in the UK attracts an annual Licence Fee. In 2011-12 this amounted to £142.50 for a colour TV and £49 for a black and white. Pensioners aged 75 or over are eligible for a free licence. The proceeds of the Licence fee form the bulk of the funding of the BBC which enables helps the BBC to fulfil its Public Purposes.
3. TV Licensing is a trademark owned by the BBC. It is used by firms contracted by the BBC to collect annual Licence Fees. Part of this function is the maintenance of a database of TV owning households. Currently, five companies are contracted to collect and enforce Licence Fees in Great Britain, Northern Ireland, the Channel Islands and the Isle of Man.
4. However, the Licence Fee system is subject to considerable evasion. In 2009/10 TV Licensing estimates that 5.2% of households who are liable for the Licence Fee do not pay it. Since 2002/03 the evasion rate has ranged between 4.7% of households in 2004/05 and 5.3% in 2008/09. This level of evasion means that in 2009/10 alone £196 million of potential revenue was not received by the BBC because of evasion. It is possible that these estimates are subject to optimism bias so that the actual levels of evasion are significantly higher than those reported. We have no means of judging the truth of this conjecture.

Problem under consideration

5. The Wireless Telegraphy Act 1967 (as amended) obliges retailers to notify TV Licensing of any sales or rentals of television sets. For the purposes of the Wireless Telegraphy Act "television set" means any apparatus which (either alone or in association with other apparatus) is capable of receiving (whether by means of wireless telegraphy or otherwise) any television programme service. This includes TVs, VCRs, DVD recorders, set-top boxes, PCs with broadcast (TV) cards, and TV cards. It does not include computers or mobile phones.
6. The Act specifies the type of information a retailer must record from someone who buys or hires a television set, which is then notified by the retailer to TV Licensing within 28 days of the purchase or rental date. Failure to provide notification is an offence under the Wireless Telegraphy Act. In this way, TV Licensing is made aware of the number and location of newly purchased or rented TV sets. This information is one of the means used to keep the TV Licensing database up-to-date.
7. It should be noted, however, that the vast majority of TV and TV-related sales are to customers who have already paid the Licence Fee. It is useful for capturing those who are not already registered on the TV Licensing database. Hence, the retailer TV notification system is nowadays mainly used to register those who buy TV equipment without having previously paid the Licence Fee or who reside in an address which did not previously exist. In 2010, 75,864 licences of this type were issued yielding £10.810 million in revenue to the BBC (0.3% of the total licences issued in 2010).

8. In addition, the BBC estimate that the equivalent of a further 18,246 colour licences were issued as the indirect result of enforcement procedures initiated as a result of retailer registration. These procedures included letters and visits by field investigators. As a consequence, the total Licence Fee revenue raised as a direct and indirect result of retailer notification is 94,110 licences or £134.11 million of revenue.
9. TV Licensing requires retailers to complete a form either online or in hard-copy whenever they sell or rent a new TV. Most retailers have opted to use the online system although at least one large retailer prefers to mail completed hardcopy forms to TV Licensing. In 2011, 12.478 million notifications were completed by retailers (see Table 1).
10. Retailers, through the Red Tape Challenge, complained that this requirement is unnecessary because most TVs are sold to people who are already Licence Fee payers and burdensome because it imposes costs upon them which could be used more productively in their business activities.

Rationale for intervention

11. The Government accepts the view that the requirement on retailers to inform TV Licensing every time someone buys a TV is an unnecessary burden on retailers. The regulation was originally intended as one of the ways to stop Licence Fee avoidance. Nowadays, however, prevention of evasion of the Licence Fee depends on a comprehensive system of enforcement of which retailer TV registration is a relatively small and insignificant part.
12. The Government believes that, although it is possible the BBC could forfeit considerable Licence Fee income as a result of this measure, it will be possible for TV Licensing to improve its procedures sufficiently to significantly reduce the potential loss albeit at higher costs per licence issued.
13. In making this assessment the Government has taken into account the possibility of TV Licensing coming to an agreement with retailers over a voluntary scheme to assist Licence Fee enforcement. It is possible, for example, that this might involve TV Licensing paying some or all of retailer costs for participating in the scheme. Alternatively, it may be that TV Licensing finds that the prospective costs of entering such an agreement are significantly greater than the likely benefits. Another approach that might be adopted is for TV Licensing to enhance its other enforcement and data collection methods. Whatever the actual outcome, the result will be more likely to reflect commercial realities than either the current situation or one that results from direct intervention by the Government. Only if the Preferred Option is adopted will it be possible for commercial solutions to be found.
14. Nevertheless, according to best estimates, the total benefits of the current scheme to the BBC outweigh the remaining burden on retailers. However, the proportionate impact on total BBC revenue and costs is marginal compared to the proportionate impact on the total costs of TV retailers. Hence, the Government is persuaded that the present system of TV notification should be abandoned.

Policy objective

15. The policy objective is to repeal out-of-date regulations, remove unnecessary burdens on retailers, so as to free them to grow more quickly and thereby to create jobs.

Description of options considered (including do nothing)

16. Option 0 - do nothing option: This option is included to serve as a theoretical baseline against to assess the impact of Option 1- which is the Government's preferred policy option. This option is not viable as it will not produce the intended outcome of removing unnecessary burdens on retailers and freeing them to grow.
17. Option 1 - Remove out-of-date regulations and unnecessary burdens on retailers. This option will enable retailers to create jobs and so assist the Government to achieve the aims of its Growth Agenda.

Costs and benefits

Do Nothing

18. **Cost to Retailers:**

The main cost is the time and effort required by retailers to record and transfer notifications to TV Licensing. The information that retailers are required to record and notify TV Licensing include: date of sale/letting; name and address of buyer/hirer; address of where the set will be installed; and whether the device is for colour or black and white reception. Retailers' record information electronically or using a paper form supplied by TV Licensing. Most notifications (one retailer suggested 99%) are transferred electronically and processed automatically. The information is held by TV Licensing in accordance with the Data Protection Act 1998.

There are no publicly available data which can guide our assessment of the costs to retailers of participating in the TV registration system. Consequently, we have made enquiries of major retailers individually and of trade associations in order to obtain suitable information.

We are informed by one major retailer that for electronic registration the direct costs of notification are approximately 10p per notification plus a number of additional indirect costs which are discussed below. However, another suggested that approximately 5 minutes of staff time was required for each registration. At the median hourly rate of adult retail sales staff of £6.58 for 2011 this would place the direct cost of each registration at 55p in 2011 (based on ONS hourly earnings data).

We are also informed that, in addition to the direct costs of electronic registration, retailers must meet costs of staff training and re-training, costs of dealing with enforcement inspections conducted by TV Licensing, managing conflict with customers who query the use to which the information is to be put and the costs of paper documentation where addresses do not appear on the electronic database. One major retailer informed us that they do not use the electronic system for data entry and so make returns exclusively using paper forms. These additional costs are unknown because they are apparently not quantified by retailers.

The responses we received from TV retailers were neither complete nor consistent. As noted above some have been able to put a unit time or monetary value on the registration process. Others have indicated an overall figure for their whole operations which ranges from approximately £90,000 p.a. to over £700,000 p.a. In the absence of accurate data about the market share of each retailer it is impossible to translate these aggregate data into the average cost of TV registration that is met by the retailers concerned.

We do, however, have accurate data for total sales of TV and TV receiving equipment from 2006 to 2010. These are set out in Table 1.

TABLE 1
TV and TV RECEIVING EQUIPMENT SALES 2006-2011
(Calendar Years)

	2006	2007	2008	2009	2010	2011
Cathode Ray Tube (CRT) TVs	2,538,267	1,227,204	448,625	96,547	11,444	2,048
Flat screen TVs	4,342,726	7,362,231	8,751,279	9,940,028	9,560,348	9,307,988
Set top boxes	3,794,177	4,921,301	4,207,566	3,420,087	2,912,416	2,769,179
Video Recorders	497,516	263,842	136,420	63,898	24,940	4,385
DVD Recorders	1,667,140	1,631,205	1,244,619	773,004	518,963	325,388
Computer TV tuners	224,893	209,429	169,069	103,934	87,975	69,070
Total number of notifications sent by Retailers	13,064,718	15,615,212	14,957,577	14,397,498	13,116,086	12,478,059

Source: GfK.

On the basis of retailer information, the cost per registration appears to vary between a minimum of 10p and maximum of 55p. We cannot judge where in that range the average is most likely to be placed. We also note that the lower end of the range excludes many indirect costs involved. We also note that a minority of retailers use a paper-based system which is more costly than its electronic counterpart. We assume, therefore, that the 55p figure is a maximum below which most retailers are operating. For this reason, we have assumed, for the purposes of this IA, that the average cost per registration is the mid-point of a range 55p to 10p; namely 32.5p. This implies that in 2011 retailers incurred costs of £4.055 million or £3.880 million in 2009 prices.

Costs to Customers:

Customers of retailers spend time providing information to retailers which could be used for other leisure purposes. We assume that leisure costs are £5.34 per hour in 2009 prices. This is based on a Department for Transport estimate first performed in 2002 updated by HM Treasury's GDP deflator.

We assume that, on average, customers spend two and one half minutes providing information for the purposes of TV Licensing. Thus, each time a retailer notifies TV Licensing customers bear a cost of 22p. In 2011, this implies that customers met costs totalling £2.776 million or £2.745 million at 2009 prices.

Costs to the BBC:

Each TV Licence costs TV Licensing £5.06** in administration and contract costs. In 2010, this amounted to £126.2 million or 3.5% of licence fee. The cost includes collection costs, communications, admin & contract management and depreciation of new systems. Collection costs include call centres, field force (enforcement officers), detection equipment and operations and over the counter services. Communications include sending or reminders and information campaigns.

TV Licensing reports that in 2010, it sold about £11m worth of TV licences as result of the notifications sent by retailers at a cost of about £385,000. This is a TV Licensing estimate and it is not possible to isolate the effect of the licensing scheme on the number of licenses sold.

**<http://www.tvlicensing.co.uk/about/foi-administering-the-tv-licensing-system-part-2-AB20/>

Benefits to the BBC:

The BBC estimated that TV licences worth about £10.810 million was sold in 2010 as a direct result TV Licensing receiving dealer notifications from retailers. In addition, the BBC estimates that a further £2.6 million worth of colour licences were sold as an indirect result of retailer notification. This effect will continue all the while the data remains accurate and until the end of the useful life of the equipment that has been notified.

Under this option, TV Licensing will continue to use the data gathered from notifications sent by retailers to enforce the Wireless Telegraphy Act 1967 (as amended). This will be done by TV Licensing cross-referencing the notification against the information in the database and if there is no record of a TV licence at the address provided, a reminder letter is automatically sent to the address. Over time, this means that the database is kept up-to-date as new TVs are sold each year. This benefit is reproduced throughout the useful life of each new receiver with the result that Licence Fee income is substantially larger in the future than it would otherwise be.

Preferred Option

Treatment of Evasion

Evasion of the Licence Fee represents receipt of a valuable service by evaders without payment in consideration. In theory, it implies that non-evaders receive a marginally inferior service than if no evasion were to occur. Licence Fee evasion, therefore, represents a transfer from non-evaders to evaders and consequently has not been included as part of the cost-benefit analysis for this IA.

Nevertheless, it is assessed that, in the absence of new measures undertaken by TV Licensing, the rate of evasion is likely to increase somewhat as result of this measure. These increased resource costs have been included as part of costs of the measure to the BBC.

Costs to the BBC:

As result of the TV licence notification sent by retailers, we understand that the BBC sold about 75,864 TV licences worth £10.810 million in 2010. In addition, a further 18,246 licences worth £2.6 million were sold as an indirect result of retailer notifications. This implies that costs of £0.476 million (i.e. a total of $75,864 + 18,246 = 94,110$ licences costing £5.06 each to issue) were incurred issuing those licences. That cost is saved once the Preferred Option is activated.

The BBC has indicated that it will attempt to invest in new enforcement systems should the measure be passed into law. It is not clear to what extent other existing enforcement activities or the extension of existing enforcement activities would compensate for the loss of the notification scheme at little or no additional cost to the BBC. For this reason it has been necessary to estimate likely costs. The BBC has informed us that an extra expenditure of roughly 9p per licence issued or £2.3 million per annum is likely to be employed. At present it is estimated that this will prove to be 88% effective in reducing the potential loss of revenues. In 2010, there were 24.964 million licences outstanding. If the retailer notification licences are removed this leaves 24.870 million licences outstanding. Hence, we estimate that TV Licensing will bear an extra £2.3 million in administration and contract costs under the Preferred Option.

The BBC does not receive the revenue from the annual licences that would have been issued as a result of retailer notification. This reduction occurs in the year in which notification ceases but also for each year that the TV would have remained in use in the registered household. The revenues lost to the BBC, therefore, accumulate over time. For the purposes of calculating this effect we assume that TV sets have a useful life of 7 years on average. We also assume that once entered into the database as result of retailer notification households are tracked with an accuracy of 96.5% (i.e. 100% minus the average evasion rate).

The extent to which BBC revenues will be affected by the Preferred Option is not known. For this reason we have modelled a range of possible effects. Scenario 1 assumes that there is no effect on revenues apart from normal slippage due to evasion. Licence Fee revenue under the Preferred Option is, therefore, the same as under Do Nothing. Scenario 2, at the other extreme, assumes that all extra revenues from retailer notification will disappear after 2013 when the measure is introduced. Scenario 3 is a compromise between the two and consists of the mean of the two previous scenarios. This approach is adopted on the grounds that TV Licensing does not rely wholly on the TV registration

system for the effectiveness of its enforcement procedures. The results are summarised in Table 2 as follows:

TABLE 2
EFFECTS OF INTERVENTION ON BBC REVENUES

NPV in £ millions at 2009 prices	BBC Revenues 2010/19
Scenario 1: Minimal Effect	495.11
Scenario 2: Maximum Effect	275.48
Scenario 3: Compromise Estimate	385.29

Benefits to Retailers:

Removal of the notification requirement will reduce retailers' costs by more than £1.8 million per year. The benefits could be higher if we take into account savings accrued by retailers not sending notifications of TVs, DVDs etc. rentals. As small / microbusinesses are more likely rent TVs and TV receiving equipment, we believe they will benefit more under this option compared with larger businesses.

Benefits to Customers:

Removal of retailer notification will mean that the 2 minutes that each TV customer spends in complying with the notification process can be used for another more productive purpose. This is assumed to be valued at the hourly average cost of leisure time. As a result, customers benefit by nearly £1.3 million per annum.

Table 3 summarises the estimates made so far. It should be remembered that the costs and benefits are estimated for the whole of the period 2010/19. However, the policy is assumed to come into effect in 2013. For this reason, some element of retailer and customer costs remain in the calculations.

TABLE 3
SUMMARY OF COSTS OF BENEFITS
(NPV 2010/23; £ millions; in 2009 prices)

	DO NOTHING	PREFERRED OPTION
COSTS		
To Retailers	46.84	18.73
To Customers	33.37	13.25
To BBC		
Licence Issue	5.57	2.18
Enforcement	0	16.28
TOTAL COSTS	85.79	50.45
REVENUES		
To BBC	632.27	453.87
TOTAL REVENUES	632.27	453.87
NET REVENUES	546.48	403.87

Compared to the Do Nothing Option, the Preferred Option can be summarised as leading to benefits in the form of reduced costs for retail businesses while imposing extra costs on the BBC in the form of higher enforcement costs and lower Licence Fee revenues. Hence, if we regard the Do Nothing option as a baseline position the Preferred Option involves the following costs and benefits relative to the baseline position.

TABLE 4
NET MONETISED EFFECTS OF PROPOSED POLICY
(NPV 2010/23; £ millions; in 2009 prices)

	DO NOTHING vs PERFERRED OPTION
COSTS	
To Retailers	-28.11
To Customers	-20.12
To BBC	
Licence Issue	-3.39
Enforcement	+16.28
TOTAL COSTS	-35.34
REVENUES	
To BBC	-178.40
TOTAL REVENUES	-178.40
NET REVENUES	-143.06

- **Risks and assumptions**

Assumptions:

1. Each notification cost retailers 32.5p on average. There appears to be a wide range of cost estimates and so considerable uncertainty is attached to the estimate. It is not possible to know whether on average the estimate used is likely to be too high or too low.
2. Evasion is assumed to be 3.5%. This is a figure produced by TV Licensing and so may be an underestimate. If so, the reduction in BBC revenues due to the policy will be smaller than estimated here.
3. TVs have a useful life of 7 years. If TVs last longer the loss of BBC revenues will be higher than estimated here.
4. New registrations continue at their 2011 levels until 2019.
5. The costs of issuing licences will continue at their 2010 levels until 2019.
6. All Licence Fees are for colour sets.
7. Once a TV has been entered into the database the Licence Fee continues to be paid subject to the assumed level of evasion until the TV ceases to be operative.
8. The policy comes into effect in 2013.

9. Enforcement costs rise by 9p per licence under the Preferred Option. It is not known how accurate this judgement is likely to be. However, this is only likely to be 88% effective in reducing registration slippage.
10. Customers, who are all regarded as individuals, spend 2.5 minutes on average during the registration process providing information to retailers. This is likely to vary depending upon the actual procedures adopted by different retailers. Some require customers to cross to a customer service facility while in others the data are entered at point of sale.

Rentals of TVs, DVD players, video recorders etc. are not included in this analysis. There are no publicly available data on this matter. While it is believed that these form a relatively small proportion of total registrations this proportion is not known. Hence, the estimates set out above are below the likely actual outturn.

It is assumed that there is 100% compliance by retailers. This is likely to be true of electronic registration. However, the fact that we have been told that TV Licensing inspectors check on paper returns indicates that this may not be so for the small minority of registrations on hard copy.

All data except those about sales of TVs and TV-related equipment have been provided by TV Licensing, the BBC or retailers and their associations. It is possible, therefore, that there may be significant optimism or pessimism bias in some of the estimates presented above. It is not possible to estimate the extent of these possible effects and so no allowance has been made for them in the above calculations.

- **Direct costs and benefits to business calculations (following OIOO methodology)**

The BBC is regarded as a Public Corporation. Hence, it is considered to be neither a business nor part of civil society. Thus, it is regarded as outside the scope of One In One Out calculations. This is also true of individual customers. This measure is an out and estimated annual costs to business are reduced by £2.49 million.

- **Wider impacts**

- **Competition Assessment**

We do not believe that a potential reduction in the BBC's budget from the removal of the notification requirement will impact on the BBC's ability to compete with other broadcasters. Based on the compromise estimate, the potential loss in revenue in 2009 prices has a net present value of £178.40 million over a 10 year period or approximately £24.95 million per annum. This is under 0.75% of the BBC's annual £3.5bn budget. We also note that the BBC is seeking alternative ways to reduce the impact of the removal of the requirement. However, we also note that these extra enforcement measures are likely to be only partially effective.

- **Small Firms Impact Test**

Many businesses that deal in TV and receiving equipment rentals are small and could be classified as small and medium enterprises (SMEs) or even micro-businesses. We believe that small / micro businesses are likely to benefit more from the removal of the notification requirement as they are usually disproportionately impacted by regulations compared to larger businesses.

- **Statutory Equality Impact Tests**

We have also considered the potential effects of these proposals on protected groups under the Equality Act 2010 (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation). After initial screening it has been deemed that no significant impact is anticipated.

- **Other specific impact tests**

Other impact tests have been considered including Social, Justice, Sustainable development, Carbon Assessment, Environment and Rural Proofing. After initial screening it has been deemed that no significant impact is anticipated in any case.