

<b>Title: Extension to local Digital Radio multiplex Licences 2015</b>  <b>IA No: DCMS0091</b>  <b>Lead department or agency:</b> Department for Culture, Media and Sport <b>Other departments or agencies:</b> N/A	<b>Impact Assessment (IA)</b>
	<b>Date: 04/12/2014</b>
	<b>Stage: Final</b>
	<b>Source of intervention: Domestic</b>
	<b>Type of measure: Secondary legislation</b>
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<b>Summary: Intervention and Options</b>	<b>RPC Opinion: Awaiting Scrutiny</b>

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, Two-Out? Measure qualifies as Two-Out?
£14.0m	£13.9 m	-£1.1m	Yes   OUT

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

At present, all existing local DAB multiplex licences are due to come to an end between 2022 and 2026 – given that they were granted at different times. As the law currently stands, Ofcom would have to open up each licence to fresh competition when they expire. The costs of application to incumbents, and Ofcom, are greater than any gains from increased competition from this process. Therefore, the government deems it necessary to intervene and extend all licences to a common end date of 2030, when a fresh assessment of how best to proceed can be made for all local DAB multiplex licences.

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

The Government has a long term objective to support a listener-led migration from analogue to digital radio. In December 2013, DCMS announced a package of measures to support the next phase of the development of digital radio in the UK. The package included DCMS funding of £7m to operators of local DAB radio multiplexes to assist with the costs of building out the coverage of those multiplexes to approach current commercial FM equivalence i.e. from 72% of UK homes now to more than 90% of households by late 2016. The project will involve building and modifying several hundred transmitters and mean that more people (an extra 4 million homes and 6,000 miles of roads) than previously can access local commercial stations and local BBC services on digital radio.

In order to assist with the extension of local DAB coverage, DCMS is putting in place a grant scheme to provide funding, announced in December 2013, which will meet some of the additional costs of expanding coverage. This funding will help to facilitate the investment which is needed from the local radio multiplex operators to build out local DAB coverage to match local FM. The BBC will commit to fund one-third of operating costs in return for carriage of its local stations (in England) and Nations services (in Scotland, Wales and N. Ireland) carried on the new sites.

As part of these arrangements, DCMS Ministers want to make provision to allow local radio multiplex operators' licences to be extended to a common end date in 2030. In doing so, **DCMS want to ensure that the expanded coverage on the local DAB network continues to be delivered for an extended period after the build out is complete, to allow for a reasonable return on the Government's investment.** The change will give operators more certainty and help unlock the investment from commercial radio alongside BBC and limited DCMS funding to support the rollout of local DAB to the local DAB coverage criteria set by the previous Administration in 2009 and confirmed by this Government in 2010.

**What policy options have been considered, including any alternatives to regulation?**

Section 58A of the Broadcasting Act 1996 (as amended by s39 of the Digital Economy Act 2010) contains powers to extend local DAB radio multiplex licence terms by secondary legislation. The power to extend licences is time limited, expiring on 31 December 2015. We have considered three policy options:

**Option 1:** Do nothing; maintain the existing requirements. This would require Ofcom to advertise and arrange for a beauty parade of local DAB multiplex licences in the run up to expiry.

**Option 2:** Allow Ofcom to renew multiplex licences to 2030 with no variation of the licence terms. In other words, the existing local mux licence conditions would continue to remain in place. There would be no requirements in the licence to build out or maintain coverage at FM equivalence.

**Option 3:** Allow Ofcom to renew licences to 2030 only where the local radio multiplex licensee commits to building and maintaining the expanded DAB coverage target (for that multiplex area) as assessed by Ofcom.

**Will the policy be reviewed? Yes If applicable, set review date: TBC**

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.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b> N/A	<b>Non-traded:</b>	

***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: 11/12/14

## FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year 2009	Time Period Years 15	Net Benefit (Present Value (PV)) (£m)		
			Low: -	High: -	Best Estimate: 14.0

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant	Total Cost (Present Value)
Low	-	-	-	-
High	-		-	-
Best Estimate	-		-	£0.2m

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

The costs from this policy proposal are derived from extending the local multiplex licences. If this policy is implemented, firms will have to apply to Ofcom to have their licences extended depending on when they expire between 2022 and 2026. This will involve firms devoting labour resources to the filling out of forms, managing correspondence as well as any legal costs and the like (£5,000 per licence). Ofcom will also have to devote resources to manage the extension of these licences (12 person hours per licence). Such costs for Ofcom and industry have been included in the £0.2 million projection. Details of these calculations can be found in the analysis section, below.

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

n/a

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low	-	-	-	-
High	-		-	-
Best Estimate	-		-	£14.1m

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

Although Ofcom and industry will have to bear the costs of extending the licences, this will be offset by no longer having to go through the full licence tendering process again. Given the high costs associated with a tendering process (63 person hours per licence for Ofcom, £10,000 per licence for firms, in addition to a £1,000 to £25,000 Ofcom fee per licence application for firms), both Ofcom and industry stand to benefit significantly from not having to absorb these costs. Industry also stands to benefit by £1.2 million per year in nominal terms by paying less for their DAB infrastructure because these costs can be spread over a longer time horizon given the licence extensions to 2030.

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

n/a

Key assumptions/sensitivities/risks

Discount 3.50%

Based on consultations with industry, it is assumed that all businesses wish to have their licences extended and that it is highly unlikely there would be any competition from new entrants if licences were opened to competition between 2022 and 2026. This is justified in the analysis section, below.

## BUSINESS ASSESSMENT

Direct impact on business (Equivalent Annual) £m:			In scope of	Measure qualifies
Costs: 0.01	Benefits: 1.12	Net: 1.1	Yes	OUT

## Policy Background:

1. The aim of the legislation proposed in this RTA is the inclusion of a provision to allow local digital radio (DAB) multiplex licences to be extended to a common end date of 2030, if they expire before that point.
2. This proposal is part of the Government's longer term objective to support a listener-led migration from analogue to digital radio. In December 2013, Ed Vaizey announced a package of measures to support the next phase of the development of digital radio in the UK. The package included DCMS funding of £7m to operators of local digital radio multiplexes to assist with the costs of building out the coverage of those multiplexes to approach current commercial FM equivalence (i.e. from 72% of UK homes now to 90% of households by late 2016). The project will involve building and modifying several hundred transmitters, and should mean that more people than previously can access digital radio. More details are set out at:  
<https://www.gov.uk/government/speeches/go-digital-conference-16-december-2013-check-against-delivery>.
3. The BBC is an integral part of this process. It uses capacity on local radio multiplexes to broadcast BBC Local and Nations services (like BBC Scotland and BBC London). This is reserved for its use under s49(1) BA 96. For the national services (Radio 4, 5 Live Sports Extra, 1Xtra etc.), the BBC has its own national multiplex network.
4. In order to assist with the extension of local DAB coverage, DCMS is putting in place a grant scheme to provide funding, announced in December 2013, which will meet some of the additional costs of extended coverage. This funding will help to facilitate the investment which is needed from the local radio multiplex operators to build out local DAB coverage to match local FM. The BBC will commit to fund one-third of operating costs in return for carriage of its local and Nations services carried on the new sites. As part of these arrangements, Ministers want to make provision to allow their licences to be extended to a common end date in 2030. In doing so, we want to ensure that the extended coverage continues to be delivered for a period after the build is complete, to allow for a reasonable return on the government's investment. The change will give operators more certainty and help unlock the investment from commercial radio alongside BBC and limited DCMS funding to support the rollout of local DAB to the coverage criteria set by the previous Administration in 2009 and confirmed by this Government in 2010.
5. The existing licences were granted at different times, and are all due to come to an end between 2022 and 2026. As the law currently stands, Ofcom will have to open up each licence to a fresh competition. We consider this to be costly and disruptive for the multiplex operators and the overall network, as they would have to apply for all of the licences either themselves or as part of new consortia as they came up. More importantly, the certainty of holding onto the licences they currently operate provides multiplex operators with the ability to agree contractual terms for the expansion of the local DAB network up to 2030.

## Policy Proposal:

- Allow Ofcom to renew licences to 2030 only where the local radio multiplex licensee commits to building and maintaining the expanded DAB coverage target (for that multiplex area) as assessed by Ofcom. This represents a re-cast of existing regulation (section 58A of the Broadcasting Act 1996) that is deregulatory in nature (as applying for a licence extension is much less burdensome to licence holders than applying for a new full licence in a competitive scenario).

The policy objective here is to use the powers in s36 of the Digital Economy Act 2010 (introducing s58A of the Broadcasting act 1996) for this purpose. This would enable Ofcom, on application

from the licensee, to extend the duration of the licence terms and to do so in a way which does not introduce any new requirements or costs on multiplex licensees other than to meet the commitment to build out to commercial FM equivalence (which is a condition of the DCMS £7.75m grant funding and subject to separate grant agreements with multiplex operators<sup>1</sup>). Due to the period since the powers came into force, the change is not covered by the IA published for the Digital Economy Act 2010.

We believe this proposal is the most appropriate approach in achieving the policy objective. It would give the multiplex licensees the certainty they are seeking with an appropriate mechanism to ensure the coverage is maintained at commercial FM equivalence for the duration of the licence. It also links in with the claims procedure for local DAB funding grants (where funding will be drawn on the completion of works).

## **Evidence Base:**

### Main affected groups:

The policy proposal is expected to have an impact on business. The main affected groups in the implementation are the local digital radio multiplex licence operators who currently hold licences which are due to expire and Ofcom who administer licences. If the licences are extended, it would be beneficial to Ofcom and the local digital radio multiplex licence operators through no longer having to absorb the administration costs related to the retendering of licences when they expire. There will also be some modest administrative costs associated with extending the licences though. Businesses will also be positively impacted by a reduction in the amortised cost of the DAB infrastructure necessary for radio broadcasts through being able to contract for such services over 15 years instead of 10.

### Baseline:

The costs and benefits of this policy proposal will be assessed against a baseline (which also embodies the “do nothing” option) that is assumed will entail all local multiplex licence operators applying for a new licence through a full Ofcom tendering process. Therefore the net-benefit of this policy proposal is the difference between the cost of the full tendering process for all the licences and extending the licences instead. This includes lower DAB infrastructure costs for licence holders.

The costs and benefits of this policy proposal are expected to occur between 2022 and 2026 as existing licences are due to expire during this period. As the policy proposal is to allow existing licence holders to extend their licence until 2030, this impact assessment covers a 15 year period in total.

This analysis is explained in greater detail, below.

### Impacts of policy proposal:

#### **Ofcom:**

##### a) Administrative costs:

The administrative costs for Ofcom associated with the full retendering of licences if they expire are as follows:

- Costs of re-advertising the licences, managing correspondence.

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<sup>1</sup> Details are set out in the Framework Agreement between DCMS, the BBC and local DAB multiplex operators published on 9 January 2014 <https://www.gov.uk/government/publications/local-dab-network-expansion-2015-16>

- The administrative costs of evaluating entries and selecting the winner of the tender.

Ofcom have revealed from our consultation with them that fully retendering licences involves 63 person hours on average per licence at a labour cost of £30 per hour, based on the median hourly wage rate of a mid-ranking Ofcom official (senior associate). This equates to an admin cost of approximately £1,880 per licence. By comparison, renewing a licence will only require 12 hours of labour from mid-ranking Ofcom officials, or £360 per licence, resulting in an approximate net-savings of £1,520 per licence, or £76,450 for all licences in present value terms for Ofcom. This cost is included in the NPV calculations, but not the EANCB calculations given that these savings are not considered a direct impact on business. A summary of these savings is presented in Table 1 below.

The OFCOM administrative costs and benefits are expected to occur between 2022 and 2026 as existing licences are due to expire during this period. Therefore, only these years are presented in Table 1.

**Table 1 – The net-cost saving to Ofcom in administrative costs from renewing rather than retendering local multiplex licences in present value terms:**

Ofcom administrative costs (£)	2015-2021	2022	2023	2024	2025	2026	2027-2030	Total	2009 prices
Retendering	0	7,506	9,382	16,888	37,528	30,023	0	101,326	94,440
Renewal	0	1,430	1,787	3,217	7,148	5,719	0	19,300	17,989
Net-benefit	0	6,076	7,595	13,671	30,380	24,304	0	82,026	76,451

## Businesses<sup>2</sup>:

### a) Administrative costs:

As with the previous section on Ofcom's costs, the benefit to business derived from the policy proposal are partially rooted in the lower administrative costs of renewing a licence relative to the baseline if firms had to reapply for a licence through a full tendering process. Evidence submitted by industry suggests that on average, the cost of making a full bid, in a competitive scenario, to Ofcom for a local multiplex would likely cost £10,000 for the average licence and firm. Naturally, not all licences are the same, with some being of higher commercial value than others given differences in the population of each licence area. Moreover, smaller firms who wish to compete for licences may have to outsource specialist expertise such as lawyers and markets researchers, unlike larger firms which may do so in-house. That said, consultation with industry figures suggest that £10,000 is a reasonable figure to use for the purpose of this analysis.

As would be expected, the costs associated with submitting an application for licence renewal are significantly less than that of a full re-tender in a competitive environment. In order to err on the side of caution, we use a conservative estimate of £5,000 per-licence (although industry sources suggested that this figure could be significantly less, especially for larger firms). Thus, relative to the baseline, business is expected to experience a net benefit of £5,000 (£10,000-£5,000) per licence from the policy proposal. Therefore, even using a conservative estimate, for the business administration costs of a licence renewal to exceed that of a full tender in a competitive environment, our estimate would have to be out by 100%.

<sup>2</sup> The calculations are based on the current allocation of local multiplex licences and their expected end dates as per Ofcom's website; <http://www.ofcom.org.uk/static/radiolicensing/html/radio-stations/digital/digital-multiplexes-main.htm>.

The businesses administrative costs and benefits are calculated as occurring between 2022 and 2026 as existing licences are due to expire during this period. Therefore, only these years are presented in Table 2. Mux licensees will have the option of renewing early (once they have completed the expansion in their multiplex areas); this is their choice.

**Table 2 – The net-benefit to business in administrative cost savings from renewing rather than retendering multiplex licences in present value terms:**

Impact (£)	2015-2021	2022	2023	2024	2025	2026	2027-2030	Total	2009 prices
Industry application admin	0	40,000	50,000	90,000	200,000	160,000	0	540,000	482,338
Industry renewal admin	0	20,000	25,000	45,000	100,000	80,000	0	270,000	251,651
Net-benefit	0	20,000	25,000	45,000	100,000	80,000	0	270,000	230,687
No. of licences per year	0	4	5	9	20	16	0	54	

b) Ofcom licence application fees:

Depending on the size of the population within the local multiplex licence in question, Ofcom charge a corresponding fee for firms making a full application for a licence during the tendering process. This ranges from £1,000 for licence with a population of under 400,000 to £25,000 for a population of over 4.5 million. Such fees are fed into the baseline for each respective licence. By comparison, Ofcom do not currently charge any fee for a licence renewal. Therefore, under the policy proposal, businesses stand to benefit by the full amount of the application fees for each of the licences being extended as set out in Table 3 below.

The OFCOM licence application fees costs and benefits are expected to occur between 2022 and 2026 as existing licences are due to expire during this period. Therefore, only these years are presented in Table 3.

**Table 3 – The net-benefit to business in Ofcom fee savings from renewing rather than retendering multiplex licences in present value terms:**

Impact (£)	2015-2021	2022	2023	2024	2025	2026	2027-2030	Total	2009 prices
Industry application fee	0	16,000	23,000	145,000	186,000	118,000	0	488,000	435,891
Industry renewal fee	0	0	0	0	0	0	0	0	0
Net-benefit	0	16,000	23,000	145,000	186,000	118,000	0	488,000	435,891

c) Lower infrastructure costs:

At present, multiplex operators pay Arqiva a fee for the provision of the local DAB infrastructure needed to broadcast, in the form of a total broadcast contract (TBC). The cost of the TBC is dependent upon the length of the multiplex licence granted by Ofcom. According to provisional figures provided by Arqiva for the purpose of this IA, under the licence agreements, TBCs total £8.2 million per year for multiplex operators. However, if licences were extended to 2030 under the policy proposal, the yearly costs would reduce to £7m, as the cost of the infrastructure can be annuitised over a longer time period- i.e. from when contracts are signed in 2015 to completion

in 2030. This will save multiplex operators approximately £1.2 million per year in nominal terms, a direct benefit to business. This is summarised in Table 4:

**Table 4 – Total benefit to business through lower total broadcast contract fees resulting from longer licence periods from 2015 to 2030:**

Impact (£m)	Total	2009 prices
Nominal	19.2	17.1
PV	15.0	13.4

d) Impact on competition:

In theory, not retendering the local radio multiplex licences once they have expired could prevent new entrants from being able to bid for licences and entering the market. Any businesses which are denied entry due to the decision to extend licences to 2030 will experience indirect costs through revenues they would now not be able to receive had they been successful in the tendering process. However, we have judged that in reality, it is highly unlikely there would be any new entrants even if a tendering process did take place when the licences expire. There are only five commercial organisations<sup>3</sup> involved in operating local DAB multiplexes across the UK and they hold all the local DAB multiplex licences currently issued. Indeed, the following commercial and technical reasons mean there is a very low likelihood of new entrants other than the five incumbents applying for local DAB multiplex licences when they are due to expire in 2022-26 and at a point when DAB is expected to be a mature technology:

- **New entrants would only have a short period – four or eight years - to recover their investment in obtaining a local DAB licence;** this is only a third, or at best two thirds, of the time for current licence holders. We plan to extend local DAB multiplex licences to a common end date of 2030 to allow for future decisions on the platform in the mid 2020s. This means that, as current licences are due to expire from between 2022 to 2026, any new entrant would only have between four to eight years to recover their investment. Currently a licence holder has 12 years to recover their investment in obtaining a licence and building and running a local DAB multiplex. In addition, there is a statutory requirement for the BBC to have reserved capacity (of between 11%-22%) on local DAB multiplexes for the carriage of BBC nations or local radio services. This limits the scope of a local multiplex operator to generate additional revenues from commercial stations.
- **There has been a low level of interest in bidding for DAB multiplex licences.** The second national commercial DAB multiplex licence (D2) is currently being advertised by Ofcom (closing date 31 January) and to date there has only been one public expression of interest in bidding. In 2008, this licence was handed back by the successful bidder (a new entrant) and was an episode that has significantly affected the development of DAB services. The last round of licensing in 2007-08 also saw 13 local DAB multiplex licences advertised by Ofcom with most attracting only 1 bid. All bids for the 13 licences were made by one of the five existing local DAB operators (there was no interest from any other media companies). In addition, the challenging economic environment for the radio sector since the recession in 2008-09 has meant that it has taken six years for the successful bidders to set up and launch services in these 13 licenced areas. Two areas of the country – Cumbria and Suffolk – remain unlicensed in 2014 in spite of efforts.
- **Additional DAB coverage requirement.** Under the Broadcasting Act 1996 Ofcom has powers to set coverage and technical requirements, including the management of interference issues, for local DAB multiplex licences. As part of the local DAB expansion programme, the current local DAB multiplex licensees have agreed to extend coverage of

<sup>3</sup> Now Digital (owned by Arqiva); Muxco (owned by Folder Media and Arqiva); CE Digital (owned by Global Radio and Bauer Radio); Bauer Digital Radio (owned by Bauer Radio); and UTV/Bauer Digital (owned by UTV and Bauer Radio)



homes and roads in the geographic area covered by licence; maintain the greater levels of coverage for the period of the licence and adhere to higher transmission standards for the carriage of BBC local and BBC Nations’ services. The requirement to expand and maintain local DAB coverage is to help facilitate a future digital switchover (subject to decisions by a future Government which are dependent on coverage requirements for DAB services being met and 50% of all radio listening is to digital). Ofcom would have to ensure that any potential bidders for local DAB licences in the mid-2020s adhere to these additional requirements, and there are very few organisations not currently involved in the market with the proven technical capability to run a DAB radio multiplex.

- **Long term (10-15 years) technological developments will lead to a re-assessment of DAB as a platform for distributing radio services.** The distribution of radio programmes requires a very high transmission capacity and near universal coverage. At present the capacity of online networks, especially mobile networks, to handle the large amount of data required for radio is limited. However, over time it is anticipated that developments in both fixed and mobile IP based technologies will significantly improve the available bandwidth capacity of these networks and at some point lead to a re-assessment by broadcasters of the terrestrial DAB networks as a platform for distributing radio services. This measure therefore gives operators of digital platforms the certainty to invest whilst allowing flexibility in the mid-late 2020s to review the long-term distribution needs of broadcast radio.

Given that there are unlikely to be any new entrants in the event of the licences being retendered, we do not expect there to be indirect costs on business.

**One-in-two-out (OITO) status:**

The “One-In-Two-Out” (OITO) status of this policy proposal is defined as “OUT” because the proposals are deregulatory. At present, licence holders will have to go through a lengthy re-tendering process when their licences expire between 2022 and 2026. However under the policy proposal the licences will be automatically renewed until 2030, leading to cost savings for business which we consider to be of direct net-benefit. As Ofcom is a statutory regulator, it cannot be considered a business for the purpose of the EANCB calculations, unlike the local multiplex operators. We have considered, as direct, the following impacts on business (as per the above subsection headings): administrative costs, Ofcom licence application fees and lower infrastructure costs. Given that these cost categories are all lower for licence renewal than for full retendering, a direct net-benefit to business can be derived from all of them. A summary of these impacts is set out in Table 5, below:

**Table 5 – Summary NPV, Business NPV and EANCB**

Summary of impacts (£m)	Total	2009 prices
NPV	15.6	14.0
Business NPV	15.6	13.9
<b>EANCB</b>	-	<b>1.1</b>