

Extension to local Digital Radio multiplexes Licences 2015

Department for Culture Media and Sport

RPC rating: validated

Description of proposal

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. At present, all existing local DAB multiplex licences are due to come to an end between 2022 and 2026. As the law currently stands, Ofcom would have to open up each licence to fresh competition when it expires. The Department says that the costs to incumbents of re-applying, and to Ofcom of running the competition, exceed any gains from increased competition from this process. The Government therefore proposes to 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.

The Department proposes to allow Ofcom to renew licences to 2030 where the local radio multiplex licensee commits to building and maintaining an expanded DAB coverage. The Department explains that this represents a re-cast of existing regulation (section 58A of the Broadcasting Act 1996) that is deregulatory in nature.

The Department explains that applying for a licence extension is less burdensome to the licence holders than having to apply for a new full licence, in open competition.

Impacts of proposal

The main groups affected by the proposal are the local digital radio multiplex licence operators who currently hold 54 licences, which are due to expire by 2026. They will no longer have to incur the full tendering costs. As part of the process, there will also be some administrative savings to Ofcom.

The IA says that this is a deregulatory proposal (an 'OUT') with an estimated equivalent annual net cost to business of - £0.05 million.

Benefits

By extending licences, Ofcom will avoid the costs of re-advertising the licences, managing correspondence, evaluating entries and selecting a winner. Consultation with Ofcom shows that renewing licences, without re-tendering, would generate net administrative cost savings of £1,530 per licence, or £76,500 for all 54 licences in present value terms. This is calculated on the basis that renewing would take 12 rather than 63 person hours per licence, at a labour cost of £30 per hour. As Ofcom is not industry funded, the Department has not considered this to be a direct saving to business.

For multiplex operators (licence holders), renewing licences will save £5,000 per licence or £270,000 for all 54 licences, in present value terms, from no longer having to submit a full application for renewal. This is based on information from industry that suggests that bidding

for a new licence costs £10,000 in comparison to renewal costs of £5,000. In addition, licence holders will also save £488,000 from not having to pay a one-off fee to Ofcom for participating in a tender process.

Impact on Competition

The Department states that not re-tendering the local radio multiplex licences on expiry will in principle prevent new entrants from entering the market by bidding for licences. Any businesses which are denied entry due to the decision to extend licences to 2030 will experience indirect costs in the form of lost profits they would have been able to receive had they been successful in the tendering process. However, DCMS considers that, in practice, entry is highly unlikely, even if expired licences were retendered as there are only five commercial organisations involved in operating local DAB multiplexes across the UK. For commercial and technical reasons, it is unlikely that new entrants would apply for local DAB multiplex licences.

Quality of submission

The IA is well written and provides a detailed assessment of costs and benefits. The Department has addressed the potential impact on competition. The Department's assessment that this is deregulatory and an 'OUT' is consistent with the RPC's opinion in relation to the extension of analogue commercial radio licences (RPC14-DCMS-2210(2), dated 1 June 2015). Had the measure increased the frequency of bidding it would have been regulatory to the incumbents. By symmetry, the Committee agreed that reducing the frequency of bidding should be classified as directly deregulatory to incumbents, with any costs to potential new entrants or impacts of reduced competition from the measure being classified as indirect in this case. The BRFM does not make any provision for the pro-competition guidance set out in paragraph 1.9.15 to be applied in reverse i.e. to handle measures which have a negative impact on competition.

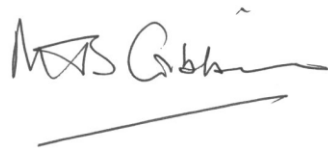
Initial departmental assessment

Classification	OUT
Equivalent annual net cost to business (EANCB)	- £0.05 million
Business net present value	£0.52 million
Societal net present value	£15.09 million

RPC assessment

Classification	OUT
EANCB – RPC validated	- £0.05 million
Small and micro business assessment	Not required (deregulatory)

Opinion: validation
Origin: domestic
RPC reference number: RPC14-DCMS- 3024(1)
Date of implementation: Implemented 1 March 2015



Michael Gibbons CBE, Chairman