

DIGITAL SWITCHOVER: THE COSTS AND BENEFITS

Item 2.4 of the Digital Television Action Plan requires us to “carry out an overarching cost benefit analysis of the options and timing for achieving digital switchover. This will assess the costs and benefits of taking measures to enable the switching off of analogue terrestrial transmissions to commence from specific dates on or after 1 January 2006”.

This Cost Benefit Analysis (CBA) will inform future decisions concerning switchover, including issues about timing and the nature of Government policy towards digital television. Government is committed to not switching off the analogue signal until three criteria are met:

- that everyone who can currently get the main broadcasting channels in analogue form can receive them on digital systems;
- switching to digital should be an affordable option for the vast majority of people; and
- as a target indicator of affordability, 95% of consumers have access to digital equipment.

We have said this (the switching off of analogue terrestrial transmissions) could start to happen as early as 2006 and that switchover could be completed by 2010. However nothing in a rapidly moving market can be certain, and this cost-benefit analysis will be able to inform policy decisions about the quantifiable costs and benefits of Government actions under a variety of different scenarios. The purpose is to inform policy decisions towards maximising the net benefit to consumers and the economy of the switchover. The CBA will provide a sound evidence base upon which to make decisions about the sort of policies that might be required to achieve this.

As is standard in the CBA methodology we are interested in the net effect of policy choices. Thus, for example, the benefit to be attributed to the use of released spectrum is measured by the sum of the consumer and producer surplus arising from this use. There will also be an important distinction to be made between financial costs and economic costs. We will group benefits and costs by the parties who benefit from or incur them.

In practical terms the working model will be a spreadsheet showing costs and benefits over time. We hope that this will be a dynamic tool for policy-makers that can be modified and improved by market information that is added over time (e.g. on the take-up of DTV). This is particularly important because, of the large number of assumptions and estimates which will be needed as inputs for the analysis, the future take-up of digital television will be central. Each consumer who buys into digital TV has made their own assessment that their personal benefits outweigh the costs.

Other issues that the CBA will need to take account of in its analysis include:

- Consumer surplus arising from alternative use of released spectrum
- Producer surplus arising from alternative use of analogue television spectrum
- Benefits to upstream suppliers of analogue/digital equipment and content.

- Necessary investment in digital transmission equipment
- Necessary investment in new digital reception equipment

This is not an exhaustive list and other factors will be considered either quantitatively or qualitatively.

The Cost Benefit Analysis will be undertaken by a team of Government economists, and will be subject to independent quality assurance.