



# Draft Annual Plan 2008/09

## Consultation

Publication date: 11 December 2007

Closing date for responses: 19 February 2008

# Contents

Section		Page
1	Foreword	3
2	Executive summary	5
3	Ofcom's approach to regulation	8
4	Reflecting on our strategic framework	11
5	Implications for Ofcom's work programme	24
6	Detailed policy work programme	28
7	Providing services to citizens and consumers	45
8	Delivering value to stakeholders	50
Annex		Page
1	Consultation questions	52
2	Responding to this consultation	53
3	Ofcom's consultation principles	55
4	Consultation response cover sheet	56

## Section 1

# Foreword

- 1.1 Ofcom was created in anticipation of convergence across the various communications services. At that time, we were only just beginning to see some of the transformations yet to come. Four years later, we are in a world where convergence is truly upon us. The way we go about our personal lives, how we participate in society as citizens and how we act in the marketplace as consumers are all changing profoundly. These changes have far reaching consequences for all sectors of the economy, but they are felt especially in the communications sector.
- 1.2 Convergence is not easily defined and refers to a broad range of developments. These include: changes in the way that communications services are used; transformations in business models; and technological advances. But what is clear is that it offers many opportunities, while raising a number of new challenges for consumers, citizens, businesses and Ofcom. We are moving rapidly to an increasingly digital world, which features more competition, more choice, more complexity and more change in the communications sector than ever before. These changes raise a number of new questions – questions that apply to us as citizens, and as consumers.
- 1.3 For citizens, there are many benefits from these changes. An increasing number of communications platforms can be used to achieve public interest objectives. One example is public service content that can now be delivered over TV, the radio or the internet. Citizens can also benefit from becoming part of a better connected, more networked society.
- 1.4 But there are challenges for us as citizens too. We must guard against the risk of excluding certain groups from participating fully in society. This can happen because of issues with the availability of services, or because of lower take-up and usage among some groups. The traditional ways in which public interest objectives have been delivered in the past are increasingly being challenged. For example, the current business model for the provision of public service broadcasting is being undermined by increasing choice and competition in broadcasting. Some approaches to securing universal availability of services will also need to be re-assessed in an increasingly convergent and digital world.
- 1.5 As consumers, we are finding ourselves with more control than we have ever had before. As an example, mobile technologies – hardly a feature of the communications landscape 15 years ago – are now key to communication, and increasingly to accessing and sharing media content. We are also able to select from an ever-growing range of services, and customise these services to our needs. In the emerging digital, convergent world, we are also increasingly producers of our own content, taking advantage of the possibilities offered by the internet and other interactive technologies.
- 1.6 Yet there are challenges for consumers. While new services offer the potential for greater control, growing complexity means that there is a greater need to empower consumers in the new world. We need to ensure that consumers can make the most of the potential benefits, while at the same time protecting themselves. However, empowerment is not the only solution to protecting consumers. There

will continue to be a role for Ofcom to intervene in certain circumstances to protect consumers from actual or potential harm.

- 1.7 Finally, the opportunities and challenges presented by convergence are no less significant for industry. The business models of companies in the communications sector are being transformed. Many new players are entering the market, and some have been highly successful in only a few years. At the same time, many traditional businesses are benefiting from new opportunities and extending their reach to new platforms. But the fast pace of change makes for a challenging market environment for new entrants and long-established companies alike.
- 1.8 All of these opportunities and challenges raise questions for Ofcom. To make sure we are prepared to meet these challenges, we developed a three-year strategic framework last year to consider the implications of convergence. The aim of the framework was to guide our work until 2010, and to deliver on our objective of regulating *for* convergence.
- 1.9 As part of our annual planning process this year, we have looked at the main developments in the communications sector to check whether the strategic framework remains appropriate. Our analysis suggests that it is indeed still highly relevant. However, the developments we have witnessed in the past year need to be reflected in our detailed work programme. Therefore, our work programme set out in this document balances a number of existing work areas (such as the implementation of our strategy for fixed telecoms) with some new areas of focus (such as our second review of public service broadcasting).
- 1.10 We must focus our activities on the most relevant areas for consumers, citizens and industry. It is therefore important that we take account of a broad range of views on the proposed work programme.
- 1.11 In developing our proposals we sought input from all of Ofcom's advisory bodies. For national perspectives, we discussed with the National Advisory Committees for England, Northern Ireland, Scotland and Wales. For issues affecting different groups across UK society, we consulted the Content Board, the Consumer Panel and the Advisory Committee for Older and Disabled communications users. And we reviewed issues concerning the radio spectrum with the Ofcom Spectrum Advisory Board.
- 1.12 We are keen to hear the views of all our stakeholders, including those representing consumers, small and large businesses, and government, as well as companies in the communications sector. We would very much encourage anyone with an interest in Ofcom's work programme to contribute and respond to this draft annual plan. We will publish responses to this consultation within our final annual plan in April 2008.

**David Currie**  
Chairman

**Ed Richards**  
Chief Executive

## Section 2

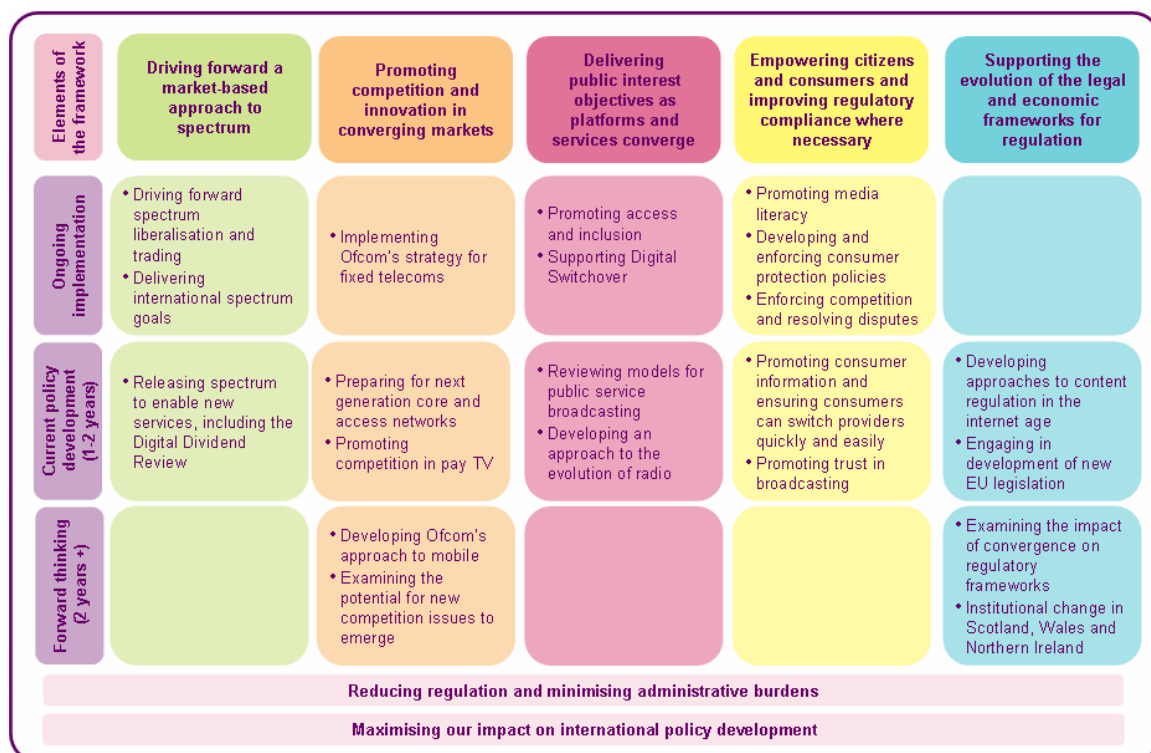
# Executive summary

- 2.1 Convergence has been long heralded by many in the communications sector. The changes we are witnessing now suggest that convergence really is upon us – changes are occurring to the communications sectors faster than anyone anticipated this time last year. This trend is likely to continue in the coming year.
- 2.2 The potential implications of these changes for citizens and consumers will be significant. We have now started the process of digital switchover in the UK. We have seen a range of new and innovative services on the market increasing in popularity faster than anyone expected: for example, social networking. We have also witnessed increasing pressures on traditional media and business models.
- 2.3 In light of these developments, we outlined in last year's annual plan that Ofcom should seek to regulate *for* convergence. To achieve this, we detailed a three-year strategic framework around which we would focus our major activities. The framework focuses on five main areas:
- driving forward a market-based approach to spectrum;
  - promoting competition and innovation;
  - ensuring the delivery of public interest objectives;
  - improving empowerment, protection and enforcement for citizens and consumers; and
  - considering the legal and economic frameworks for communications regulation.
- 2.4 These five main areas are supported by two additional activities that cut across all areas of Ofcom's work. These are: continuing to reduce regulation and minimise administrative burdens; and maximising our impact on international policy development to best represent the interests of UK citizens and consumers.
- 2.5 The past year has seen a number of key developments in the communications sectors. These include:
- acceleration of convergence, with an increasingly rapid take-up of bundled services by consumers;
  - a growing number of new services and increasing use of these services by consumers;
  - a changing mix of media consumption, and new ways of consuming media by different consumer groups;
  - challenges to the business models of traditional media, which are emerging more quickly than anticipated, resulting in implications for the delivery of public interest objectives;
  - new sources of competition in service delivery as the number of communications platforms used by consumers increases; and

- the continued risk of new competition issues emerging from new forms of market power.

2.6 We are now approaching year two of our three-year framework. Despite the developments we have seen in the market over the past year, we believe this framework continues to be relevant for our aim of regulating *for* convergence. However, we do need to ensure that the specific work programme within the framework remains appropriate for today’s communications sector. We have therefore reviewed and updated our proposed work programme for the coming year.

**Figure 1: Major policy work areas in 2008/09**

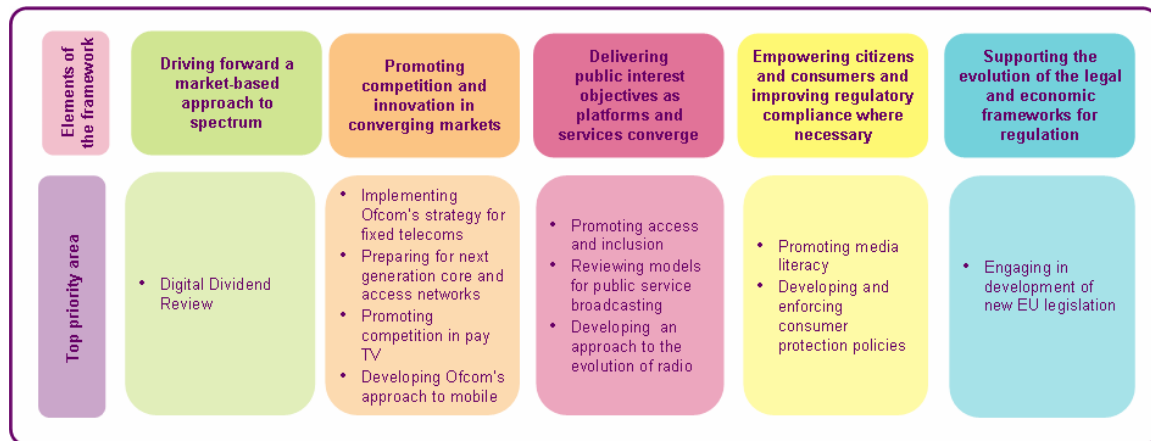


2.7 We are proposing a wide-ranging work programme for next year consisting of 21 major work areas. Our work programme consists of projects in an ongoing implementation stage, areas of current policy development and horizon-scanning activities that look further ahead.

2.8 Within this work programme, we have identified a number of top priorities for Ofcom. These are work areas where successful outcomes are vital in 2008/09 to ensure Ofcom fulfils its longer-term intent of maximising the benefits of convergence for citizens and consumers across the UK. Priority areas are those elements of our work that will: deliver the greatest potential benefits to citizens and consumers; address the greatest risks for citizens and consumers; or those that are most time-dependent.

2.9 Although we have identified these top priorities, this does not mean that other major areas of policy work identified for 2008/09 are not critically important. All of the major work areas identified will remain fundamental to Ofcom delivering on its duties for citizens and consumers. We will continue working to ensure that our plans in all areas of the work programme are fulfilled to the highest possible standard.

Figure 2: Highest priority areas for 2008/09



- 2.10 At the same time, the nature of the communications sectors means that there will often be unexpected issues that arise during the year, for example, Ofcom's contribution to the Byron Review of internet content. To ensure that Ofcom has sufficient resource to carry out such unplanned tasks without compromising our ongoing work, we have reserved a share of capacity for unexpected tasks in 2008/09.
- 2.11 In addition to our policy work programme, one of Ofcom's key roles is to deliver a range of services to stakeholders. These include: keeping spectrum free from interference; allocating number ranges; providing information services to the market, for example our annual Communications Market Reports. These are valuable services for stakeholders and we are looking at how we can continue to improve their delivery.
- 2.12 In delivering our policy work programme and services to stakeholders, we remain committed to maximising our efficiency. Our aim is to deliver the maximum value for money to our stakeholders. Ofcom will continue its focus on enhancing value for money through a variety of initiatives in the coming year.
- 2.13 It is important to us that all our stakeholders understand what we are proposing to focus on in the coming year. This is the purpose of this consultation on the draft annual plan. We welcome all views from stakeholders on the proposed top priorities and our wider work programme for the coming year. We will publish the results of this consultation within our final annual plan in April 2008.

## Section 3

# Ofcom's approach to regulation

- 3.1 The fast pace of market change resulting from convergence presents a broad range of challenges for communications regulation. In this environment it is important that Ofcom has a clear approach to fulfilling its regulatory remit.
- 3.2 Ofcom's twin duties in relation to the interests of citizens and consumers are set out in the Communications Act 2003:
- to further the interests of citizens in relation to communications matters; and
  - to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- 3.3 Within these general duties, Ofcom's specific duties fall into six areas:
- ensuring the optimal use of the electro-magnetic spectrum;
  - ensuring that a wide range of electronic communications services – including high-speed data services – is available throughout the UK;
  - ensuring a wide range of TV and radio services of high quality and wide appeal;
  - maintaining plurality in the provision of broadcasting;
  - applying adequate protection for audiences against offensive or harmful material; and
  - applying adequate protection for audiences against unfairness or the infringement of privacy.
- 3.4 In order to deliver on these duties, we outlined a number of specific principles on how we would implement our regulatory policies. Our regulatory principles serve as guidance in ensuring that we address policy issues effectively, and in a timely, robust and comprehensive manner. They also help to provide regulatory clarity to our stakeholders on Ofcom's general approach to regulation.



**Figure 3: Ofcom's regulatory principles****When we regulate**

- Ofcom will operate with a bias against intervention, but with a willingness to intervene promptly and effectively where required.
- Ofcom will intervene where there is a specific statutory duty to work towards a public policy goal that markets alone cannot achieve.

**How we regulate**

- Ofcom will always seek the least intrusive regulatory methods of achieving our policy objectives.
- Ofcom will strive to ensure that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome.
- Ofcom will regulate with a clearly articulated and publicly reviewed annual plan, with stated policy objectives.

**How we support regulation**

- Ofcom will research markets constantly and will aim to remain at the forefront of technological understanding.
- Ofcom will consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation on a market.

- 3.5 Our bias against intervention aims to minimise the risk of unintended consequences arising from regulation. Such consequences could distort or stifle the development of competitive and rapidly changing markets. However, where intervention is required we will intervene quickly and decisively. For example, the emergence of new services and technologies creates an increased risk that consumers will fall victim to scams, such as internet rogue diallers. Taking firm action to prevent such activities is vital: it can give consumers the confidence to take advantage of the increased flexibility and choice which new, convergent services can bring.
- 3.6 We must ensure that regulation helps rather than hinders the development of markets. To achieve this, our principle is to use the least intrusive regulatory mechanisms appropriate for the situation. An example of this is the creation of a Telecoms Adjudicator to deal with issues arising from local loop unbundling (LLU). Referring such issues to the Telecoms Adjudicator in the first instance has meant that problems with the implementation of local loop unbundling could be dealt with in a pragmatic and efficient way. This has meant the development of the market has not been held back by lengthy formal investigations.
- 3.7 The rapid pace of change in the communications sector makes it vital that our decisions are underpinned by a clear understanding of people's attitudes and of how markets are developing. Our commitment to evidence-based decision-making is underpinned by a comprehensive programme of market research, and we publish regular reports on the communications market.

- 3.8 We also recognise the importance of consulting the full range of our stakeholders, both informally as policy options are being identified and refined, and formally through the publication of consultation documents.
- 3.9 Carrying out impact assessments helps ensure that we follow good practice when making policy decisions. An impact assessment involves being clear about the issue which needs to be addressed, identifying a range of policy options and analysing the impacts each would have.
- 3.10 In forming Ofcom, Parliament gave us a principal duty to further the interests of citizens and consumers. This makes it particularly important for us to understand how our decisions will affect them. We are all citizens and consumers. As consumers, we participate in the marketplace, acquiring or using goods and services. In short, we seek what is good for ourselves. As citizens, we are concerned not with our narrow individual interests, but with what is good for society. The interests of citizens can be determined by Parliament or through some other process of democratic authorisation. For example, to enable citizens to provide input to our decisions we have used deliberative research processes that allow groups of citizens to weigh up alternative options.
- 3.11 Sometimes, the interests of citizens may be at odds with the interests of at least some individual consumers. For example, promoting the availability throughout the UK of higher-speed broadband might involve going beyond what the market would deliver. Such public intervention could be viewed as being in the interests of all citizens: it could promote a more inclusive, interconnected society. It would also benefit those consumers who may not otherwise be able to receive higher-speed broadband, such as those living in remote parts of the UK. At the same time, as consumers some of us might have to pay more for services that would have been available to us anyway, but we would benefit from a society which enjoys more widespread access.
- 3.12 Therefore, in making policy decisions, it is important that we identify both the interests of citizens and the interests of consumers. We can then understand and make clear the trade-offs which our decisions often involve. This will be especially important as we respond to converging and increasingly competitive markets. For example, not all new services will be made available to everyone. This may mean that the impact of convergence is uneven across different consumer or citizen groups. In this case, we would need to work with government to determine what services society believes should be accessible more widely, bearing in mind that this may mean some consumers have to pay more for those services than might otherwise have been the case.

## Section 4

# Reflecting on our strategic framework

- 4.1 In last year's annual plan we identified that convergence was finally happening and was going to have profound implications for citizens, consumers and the communications sectors. Convergence is raising a number of significant issues for Ofcom to address. For example, we face a range of new consumer empowerment and protection issues as complex services and service bundles are increasingly being offered. It also raises challenges for traditional mechanisms and business models used to deliver public interest objectives, including public service broadcasting.
- 4.2 At the same time, convergence offers the opportunity for delivering numerous and wide-reaching benefits to citizens and consumers. These include an increase in the level of competition, with multiple platforms competing in the delivery of services, for example video. They also include potentially significant citizen benefits from a convergent and socially networked society that is more inclusive.
- 4.3 As a result of the challenges and potential benefits that convergence brings, it is our role to regulate *for* convergence. While convergence is the result of the market developing and innovating, Ofcom has a role in influencing the speed at which it occurs and how widely its benefits are enjoyed.
- 4.4 To achieve this, last year we outlined our three-year strategic framework. This framework was based on a comprehensive examination of market developments and consultation with stakeholders. We are now approaching year two, and continue to believe this framework is relevant for our aim of regulating *for* convergence. However, it is appropriate for us to review the implications of last year's developments in the communications sector for our three-year plan. This section explores these developments.
- 4.5 Our three-year framework seeks to maximise the positive effects of convergence by focusing our work on five key areas:
- **driving forward a market-based approach to spectrum** to ensure the optimal use of this valuable resource. We will work to reduce the restrictions on how spectrum can be used, to facilitate spectrum trading and to make more spectrum available to the market;
  - **promoting competition and innovation** in converging markets by ensuring that our fixed telecoms strategy is implemented effectively, encouraging efficient investment in next generation networks and examining the potential for new sources of market power to emerge;
  - **ensuring the delivery of public interest objectives** by ensuring that high-quality content is available on a range of platforms, promoting access in all parts of the UK to the communications services needed to participate in society and reviewing our approach to content regulation;

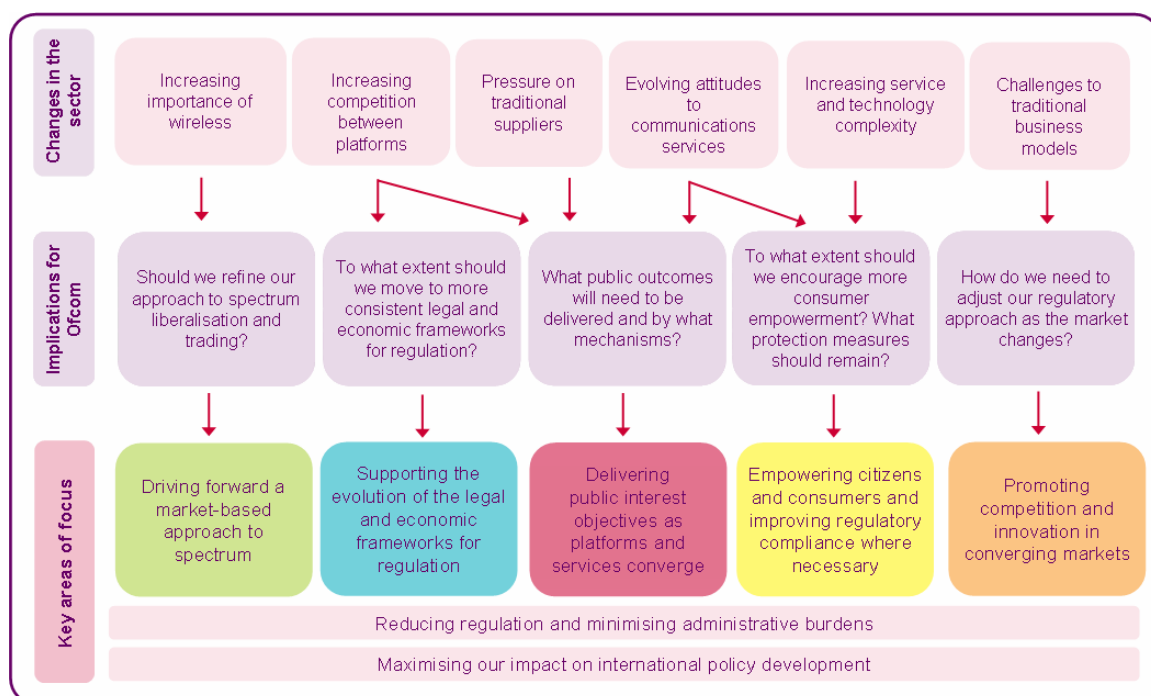


- **empowering citizens and consumers and improving regulatory compliance** where necessary by promoting media literacy and ensuring that consumers have the information to make informed choices in the marketplace. We will also continue to develop and enforce consumer protection rules, working to improve regulatory compliance by simplifying the rules and reviewing our approach to enforcement; and
- considering how the **legal and economic frameworks for communications regulation** need to evolve in response to developments in convergence.

In addition to these five areas, there are two that cut across all our work:

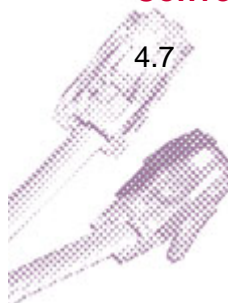
- continuing to **reduce regulation and minimise administrative burdens**; and
- **maximising our impact on international policy development** to best represent the interests of UK citizens and consumers.

**Figure 4: Ofcom’s three-year strategic framework**



4.6 As part of our planning process this year, we have reflected on the continuing relevance of this framework in the light of ongoing market changes. Below we set out the key developments over the past year and their implications for our strategic approach and work programme for the coming year.

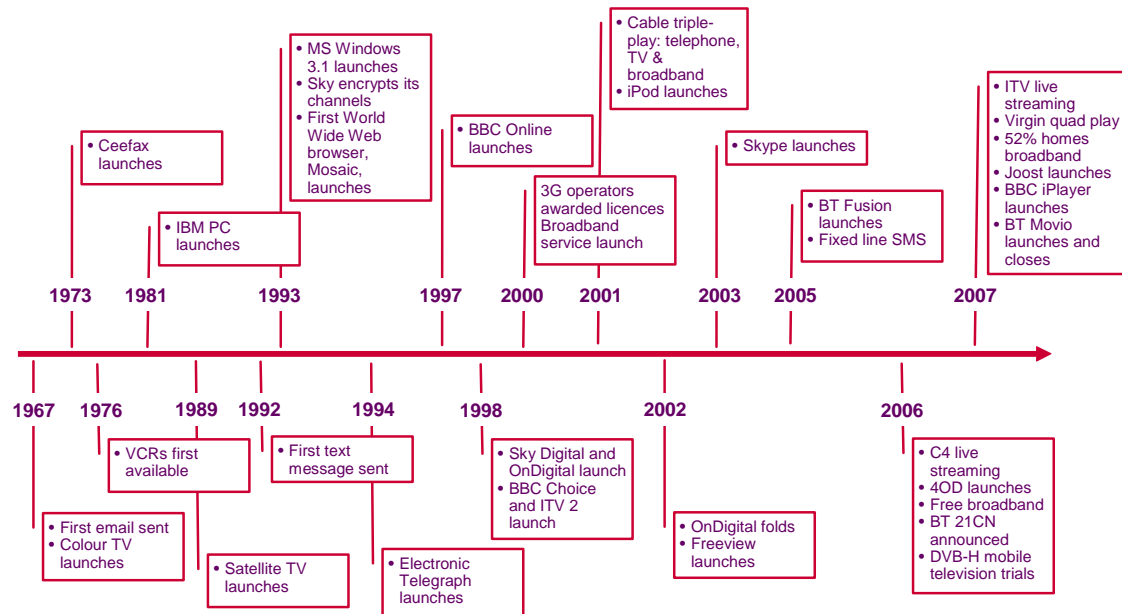
### Convergence continues to accelerate



4.7 Ofcom was created to respond to and facilitate developments in convergence. This continues to be at the heart of everything we do. Five years ago when Ofcom was conceived, converged services were enjoyed by a relatively small share of the UK population. Today, such services are a mass-market phenomenon. The trend towards convergence has continued to accelerate over the past year. A growing number of services have been launched over multiple, competing platforms by both traditional players and new entrants, and an increasing number of consumers are using these services.

- 4.8 Figure 5 below sets out the timeline of convergence, highlighting some of the new services and applications introduced to the market over the past two decades. With the launch and increasing take-up of high-speed fixed and wireless communications services we are seeing a greater number of converged product and service offerings.

**Figure 5: The convergence timeline**



Source: Ofcom

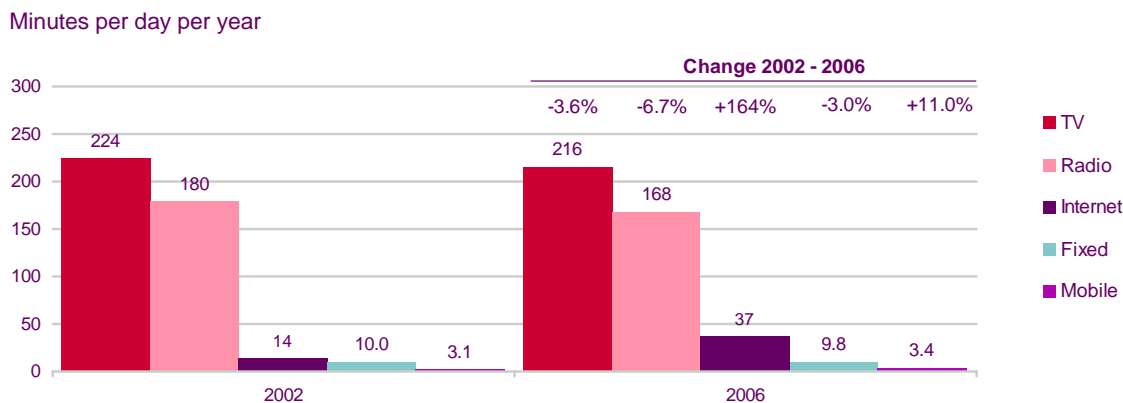
- 4.9 Take-up of all digital technologies increased over the past year as consumers continue to embrace new services and applications. Broadband reached 50% take-up at the end of 2006, and in Q1 2007 52% of UK households had a broadband connection at home<sup>1</sup>. Penetration of digital TV stood at 84% of households in Q2 2007, up ten percentage points in the past twelve months. The take-up of Digital Audio Broadcasting (DAB) digital radio also increased, from 15.3% in Q2 2007 to 20.3% in Q2 2007.
- 4.10 The trend towards convergence is also affecting the business models of both traditional players and new entrants to this sector. Increasingly, new business models for the delivery of services are emerging from a range of new companies from around the world. In many instances, these new entrants are taking advantages of the lower barriers to entry for online services. Examples include eBay, Skype, Facebook, iTunes, MySpace and Bebo and a range of on-demand Internet Protocol TV (IPTV) services.
- 4.11 At the same time, traditional platform owners and service providers are experimenting and launching a number of new business models. Examples include Sky's on-demand and Sky-by-wire services, catch-up and on-demand streamed TV from the public service broadcasters (e.g. iPlayer, 4oD), and online radio and audio content distribution.
- 4.12 Service bundles offering a combination of television, fixed line, mobile or internet services, initially available only from a few players, are now offered by a broader

<sup>1</sup> Source: Ofcom – *The UK Communications Market 2007*

range of operators. These bundled services are increasingly popular among consumers; 40% of UK households took service bundles in Q1 2007, compared with only 29% a year previously.

- 4.13 As consumers continue to adopt digital media, they increasingly access communications services over different platforms and devices. Our research shows that 43% of UK adults with the internet at home use it to download music, movies and video clips, while a fifth listen to radio or watch streaming video online. Young communications users are particularly keen on the new ways of consuming media content, with higher than average use of online games, file downloads and social networking websites.
- 4.14 The impact of convergence is nowhere as evident as in the music industry: eight in ten singles sold in the UK in 2006 were sold online. Over 40% of UK adults listen to radio via digital TV sets, nearly a quarter via the internet, and a fifth own a DAB device. A significant minority of UK adults now use mobiles to go online (13%) and to download music (11%).
- 4.15 There is also growing evidence of the trend for simultaneous use of different media rather than substitution of older media for new platforms. UK adults spent over four hours online per week in 2006, compared with around 1.6 hours five years ago. At the same time, the duration of using the traditional media of television and radio has declined only slightly. Use patterns of younger generations suggest this might be the case in the future: 82% of 12-15 year olds use the internet at the same time as performing some other media activity such as listening to the radio, according to Ofcom’s research.

**Figure 6: Time spent using communications services**



Source: BARB, RAJAR, Nielsen/Netratings and Ofcom calculations

- 4.16 Online services and applications are becoming increasingly central to our lives. Many users access information for work and studies online, as well as entertainment, banking, shopping and social networking. Many engage in publishing their own material, be it commenting on websites or posting photographs or videos online. The popularity of the internet among younger users suggests that this trend will continue. Our research in spring 2007 shows that 70% of children aged 8-15 used the internet at home; 63% among this group said they would feel left out without the internet<sup>2</sup>.
- 4.17 In the next sections we consider the implications of the developments over the past twelve months for each of the elements of Ofcom’s strategic framework.

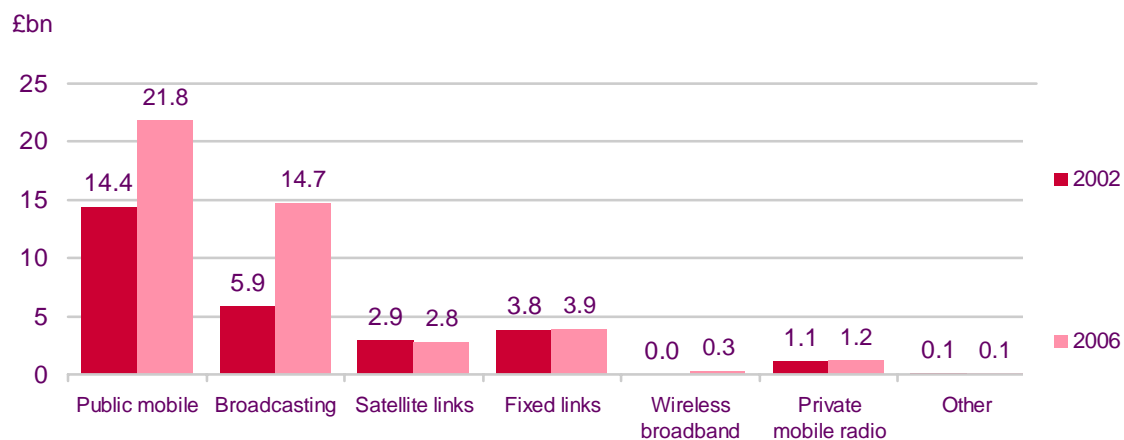
<sup>2</sup> Source: Ofcom – *The UK Communications Market 2007*

## Spectrum will continue to deliver economic and social value in a converged world

- 4.18 In setting our strategic framework last year we identified the growing importance of the UK's finite spectrum resource. Ofcom, therefore, has an important role in regulating the radio spectrum on which these many platforms and services rely.
- 4.19 Ofcom believes that a market-based approach is key to maximising the efficiency and value of spectrum for UK citizens and consumers. In our 2005 Spectrum Framework Review (SFR) we set out plans to release more spectrum to the market, liberalise the use of spectrum and enable spectrum trading. Developments over the past year suggest that the goals set out in our strategic framework remain relevant.
- 4.20 Radio spectrum continues to serve as a vital resource for the operation of both the commercial and public sectors. It enables delivery of some key public interest objectives such as communications for the emergency services and public service broadcasting.
- 4.21 At the same time, spectrum is also a major and growing economic input: in 2006 the net economic benefit of radio spectrum for the UK economy was estimated at £44.8bn, an increase of 50% in five years<sup>3</sup>. This will continue to be the case in a world of convergent communications services.



**Figure 7: Value generated by use of spectrum in the UK**



Source: Europe Economics, March 2006

- 4.22 The majority of this increase came from the mobile and broadcasting sectors, highlighting the growing value that UK consumers place on mobile wireless services. The number of active mobile subscriptions reached 69.7m in 2006, with more than 90% of UK households having access to mobile services. Total revenue from mobile services, and in particular SMS and mobile data, has also increased significantly over the past five years as the number of customers has grown. In broadcasting, the number of digital TV households has reached 84%, with take-up of pay TV now at 44% of UK homes.
- 4.23 Alongside the traditional wireless communication services, the use of more recent platforms is growing. The number of active 3G connections increased by 70% over

<sup>3</sup> Source: Europe Economics

the past year, to 7.8m, while the number of WiFi hotspots grew by over 1,000 to reach 11,447 in March 2007.

- 4.24 New wireless services and applications continue to be introduced as companies seek to deliver new and convergent services. This suggests that spectrum will remain a major enabler of innovation in the future. Mobile Voice over Internet Protocol (VoIP) is one of the latest examples of a service potentially bringing greater flexibility and value to UK consumers.

### **Maximising the value of spectrum in a converged world is best achieved through a market-based approach**

- 4.25 Given the continued importance of spectrum to achieving a wide range of social goals and its significance to the UK economy, it is vital to ensure the optimal use of this scarce resource. This means maximising the efficiency of current service delivery, but also fostering conditions for ongoing service innovation.
- 4.26 Ofcom considers that a market-based approach to spectrum management provides the most suitable mechanism for achieving these goals. As set out in the Spectrum Framework Review (SFR), market-based approaches maximise the value of spectrum by harnessing market mechanisms to ensure that spectrum is put to its most efficient uses. Such an approach also helps achieve a transparency in the public uses of spectrum, rather than the command and control style used to manage spectrum in the past.
- 4.27 We are now well into the implementation stage of the SFR. Key work to drive this forward includes:
- *spectrum release* – expectations remain that consumer demand for wireless services will continue growing. As a result, stakeholders continue to demand access to spectrum to launch such new services. Central to fulfilling this demand for spectrum is our policy of spectrum release and it is important that we continue with this process in the coming year. Our priorities include the 2.6 GHz award and the Digital Dividend Review for the spectrum freed up by digital switchover (see Section 6). These releases will help to continue meeting increasing spectrum demands and to drive economic value for the UK through the use of spectrum; and
  - *spectrum liberalisation and trading* – we have already undertaken significant work in this area, including our recent consultation on the liberalisation of spectrum currently used for mobile services. We remain committed to a market-based approach to spectrum, and the principles of liberalisation. To address the challenges we have seen in the past year, we are considering ways to accelerate the pace of spectrum liberalisation and trading in the next twelve months.

### **Promoting competition and innovation will drive consumer benefits**

- 4.28 Promoting competition is a key area of Ofcom's efforts to deliver the benefits of convergence for UK citizens and consumers. Competitive markets display greater levels of innovation, more choice for consumers, higher quality services and lower prices. As a





result, promoting competition was placed at the heart of Ofcom's duty to further the interests of consumers.

- 4.29 In our strategic framework we identified the growing challenges to traditional business models and competition brought by convergence. For example, historically, many of the major players in the communications sectors were platform owners. Increasingly, successful strategies do not require platform ownership, and many new entrants have emerged in the sector over the past five years who focus on service or content provision. However, these innovative services continue to depend on investment in network infrastructure. As traditional business models are threatened it becomes more challenging to fund such platform investment.
- 4.30 Ofcom has a duty to continue with its focus on regulating platform operators with market power. In last year's annual plan we said that, at the same time, we would need to be increasingly aware of potential new sources of market power as a result of convergence. Examples include in the areas of online navigation or digital rights management. Ofcom has to balance its regulation of traditional competition issues with issues posed by potential new sources of market power.
- 4.31 Market developments over the past year highlighted the benefits of competition in the communications sector. This has been most recently displayed in the UK broadband market: more than 60% of customers now have a choice of four or more broadband network providers. As a result of this competition we have witnessed high take-up of these services, rapidly falling prices and the launch of new and innovative services, including higher bandwidth broadband and IPTV.

#### **Competition therefore continues to be key to our strategic framework**

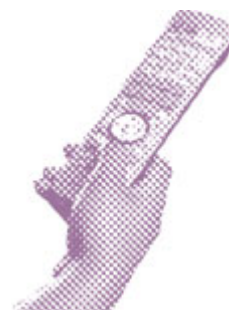
- 4.32 This year, we expect the trend for convergence to drive further changes in the competitive landscape. It is therefore imperative that Ofcom continues to examine developments in convergence closely, and to work to promote a competitive environment for the delivery of services to consumers in all sectors.
- 4.33 A number of the challenges identified last year continue to be relevant, and we have started work on addressing them. Examples include next generation core and access networks and their implications for the competitive environment for fixed telecoms. Other developments identified last year have been less evident than anticipated. For example, significant new bottlenecks resulting from convergence have not yet emerged.
- 4.34 The past year has seen more traditional competition issues continue to dominate, suggesting that Ofcom needs to continue focusing on these issues in the near future. Addressing issues related to traditional market power will have direct implications for consumer benefits. We remain committed and focused on the delivery of equivalence in the fixed telecommunications world to ensure effective competition and consumer benefits. At the same time, we will need to consider carefully the competitive prospects for the UK's pay TV and multichannel TV services and platforms.
- 4.35 In addition, some parts of the communications sectors have experienced new pressures in the last twelve months. For example, the mobile sector is undergoing change arising from slower growth, intense retail competition, growing service demands and technological change. It is therefore increasingly important that

Ofcom reviews its overall approach to the sector in the light of these developments.

- 4.36 We also need to continue to prepare for the eventual deployment of next generation access networks, and any competition issues these may raise. At the same time, we need to ensure that the Telecoms Strategic Review Undertakings and the principle of equivalence can be translated into a world where next generation core networks have become a commercial reality.
- 4.37 Despite the ongoing importance of traditional competition regulation, Ofcom must remain alert to the potential implications of future developments in, and the associated risks to, competition in our sectors. This means that there is an increasing importance to Ofcom's activities in looking at future issues. Although convergence may mean 'new' competition bottlenecks emerge elsewhere, it is unclear what the long-term implications of this will be. We need to continue closely monitoring market developments in this area.

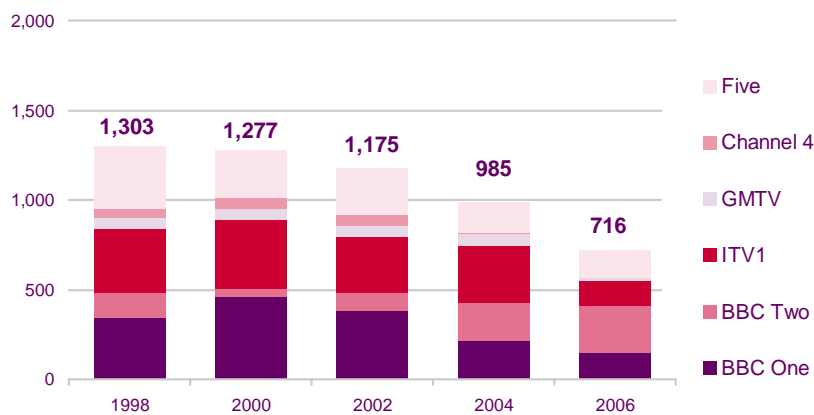
### Convergence raises challenges for delivering broader public interest objectives

- 4.38 When setting our strategic framework, we highlighted the implications that convergence may have for the current means of delivering broader public interest objectives – the citizens' interest. Growing take-up of digital platforms means that citizens' attitudes and uses of communications services are evolving. In some areas this makes public outcomes easier to deliver based on more platforms capable of delivering services, increased market choice and competition.
- 4.39 In other areas, the existing models for delivering public interest objectives are facing increasing challenges. These are arising as the number of platforms used to deliver services, and the increasing substitutability between platforms, continues. This is driven in part by developments in technology and convergence, but also by the changing attitudes of consumers, especially younger consumers, to the consumption of communications services.
- 4.40 The funding models used in the past may need to be adapted to find new, transparent and forward-looking public service delivery mechanisms that reflect the opportunities and challenges resulting from convergence.
- 4.41 The delivery of public service broadcasting (PSB) is a key example where the effects of ongoing market changes are perhaps being felt the most. Audience fragmentation and the declining value of analogue spectrum are placing increasing pressures on PSB delivery models. One example of these pressures is the reduction of first-run hours of children's TV shown by the main commercial channels highlighted by Ofcom's review of children's programming in the UK (see Figure 8). Other examples include the increasingly challenging economics of regional news delivery<sup>4</sup> as well as likely future financial pressures on Channel 4<sup>5</sup>.



<sup>4</sup> This was highlighted in Ofcom's New News, Future News report looking at the future of news after Digital Switchover. <http://www.ofcom.org.uk/research/tv/reports/newnews/>

<sup>5</sup> See the Channel 4 financial review document at [http://www.ofcom.org.uk/media/news/2007/04/nr\\_20070404a](http://www.ofcom.org.uk/media/news/2007/04/nr_20070404a)

**Figure 8: First-run hours of children's TV shown on the main terrestrial channels**

Source: Ofcom / broadcasters

4.42 Radio is another example of a traditional media platform that is facing rapid change. The platform continues to be universally valued by customers with the medium reaching 90% of the UK population on a weekly basis. The oldest traditional media platform, radio continues to be at the forefront of developments in convergence. Consumers increasingly access radio via digital platforms – in Q1 2007, 41% said they listened via digital television, a quarter accessed radio stations on the internet, a fifth owned a DAB set. A significant minority download podcasts (8%) or listen via mobile phones (5%). At the same time, commercial radio revenues have declined slightly over the past year while the share of listening to commercial radio, and in particular local commercial services, has fallen significantly over the past five years.

#### **Ofcom must consider how public interest can be most effectively delivered in a convergent world**

4.43 These challenges have had a number of specific implications for different areas of public interest. In the past year, Ofcom has started work in a number of specific areas, including:

- *public service broadcasting* – as a result of these challenges, we have brought forward the start of the public service broadcasting review (PSB Review). Ofcom's work on children's television and the Channel 4 financial review this year further highlighted the issues being faced by public service broadcasters. The PSB Review will consider future approaches to delivering public service content as audiences increasingly migrate to digital services;
- *delivery of radio services* – in the light of the challenges faced by the radio sector, we need to continue our work on reforming the regulatory framework. This includes the implementation of a new regime for content regulation and work with the Government should it decide to take forward further amendments to legislation. We will also play a full part in developing ideas for the future digital options for radio as part of the Digital Radio Working Group;
- *access and inclusion* – delivering many of the benefits of convergence to all UK citizens and consumers hinges on services being made available to everyone. In the coming years, our work on access and inclusion will need to consider how the universal availability of existing telecommunications services

may be delivered in the future. We must also consider the availability of new platforms and services, such as next generation access broadband services and mobile TV, and the implications availability may have for inclusion. As well as availability, we need to consider accessibility and take-up of services among all consumer groups. While take-up of all digital technologies continues to grow, there remain differences in take-up levels between different consumer groups. We need to analyse carefully any existing barriers to take-up and ways of encouraging use, especially for vulnerable groups including older people and disabled consumers; and

- *digital switchover* is a specific challenge for the coming year. We need to help ensure that the needs of all consumer groups are addressed in the process of digital switchover as well as ensuring a smooth technical transition. To achieve this, we need to continue to provide our support to the Government and Digital UK as they lead the switchover process.

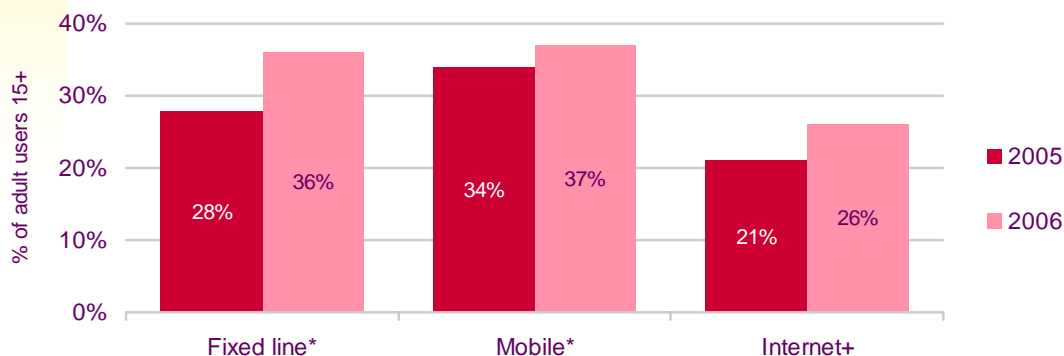
**Empowering consumers and maintaining regulatory compliance is key to meeting the consumer interest in a converged world**

4.44 In the strategic framework we highlighted that the fast pace of change and increasing diversity of services in the market mean that consumer needs for empowerment and protection are becoming more complex.

4.45 In the telecommunications market the number of new offers is growing continuously and service propositions are increasingly complex. In this environment we need to ensure that consumers are able to make well-informed choices and move easily between services. This is increasingly occurring, as outlined in Figure 9.



**Figure 9: Residential consumers who have ever switched provider**



\*data Q4 2005 and Q4 2006 ; + data for Q1 2006 and Q1 2007

Source: Ofcom research

4.46 Consumer information is increasingly important in enabling effective choice in the marketplace. One recent example of how consumer information is of key importance is broadband speeds. There remains significant uncertainty among consumers about the actual broadband service speeds offered. This may limit consumers' ability to select the most appropriate service for them.

4.47 Concerns about consumer empowerment and regulatory compliance are often considered in terms of new and emerging services. However, at the same time, developments over the past year have underlined the importance of maintaining a

high degree of consumer protection on traditional platforms while also enabling greater consumer empowerment. In broadcasting, a number of issues have emerged, for example in relation to phone-in competitions and programmes which breach existing codes in other ways by materially misleading their audiences.

### **Continuing to empower consumers is crucial for Ofcom**

- 4.48 While there have been improvements in the level of consumer awareness and switching between services, we must ensure that this continues. This is a challenge, with more complex services and bundled offers becoming a key feature of the market. It is also vital to ensure that efficient measures are in place to address quickly any practices by service providers that result in consumer harm or detriment.
- 4.49 We also need to enhance our focus on media literacy. A media literate society will have the skills, knowledge and understanding people need to make full use of the opportunities presented by both traditional and new communications services. It will also enable people to protect themselves and their families from possible risks presented by new services.
- 4.50 We will continue working with other public bodies, and with our stakeholders, to fulfil Ofcom's aim of supporting UK children and adults in acquiring the ability to engage confidently with the ever-growing range of sophisticated communications services. We will pay particular attention to the critical areas identified in our media literacy research: supporting parents in using content management tools such as such as internet filters, firewalls and PIN access to television services; promoting critical understanding among younger people; and helping older consumers to access and engage with communications technologies.
- 4.51 Finally, we need to continue working to ensure efficient implementation of current broadcasting codes. Recent experience in the broadcasting sector has also shown the importance to citizens, consumers and Ofcom of responding quickly and efficiently to any specific cases of malpractice that arise.
- 4.52 In all these areas we need to consider how co-regulation and self-regulation may be employed to support flexible and efficient ways of protecting and empowering citizens and consumers. At the same time, we will continue providing input on any development of legislation relevant to the sectors we regulate, both in the UK and in Europe.

## Convergence will mean that legal and economic frameworks have to evolve

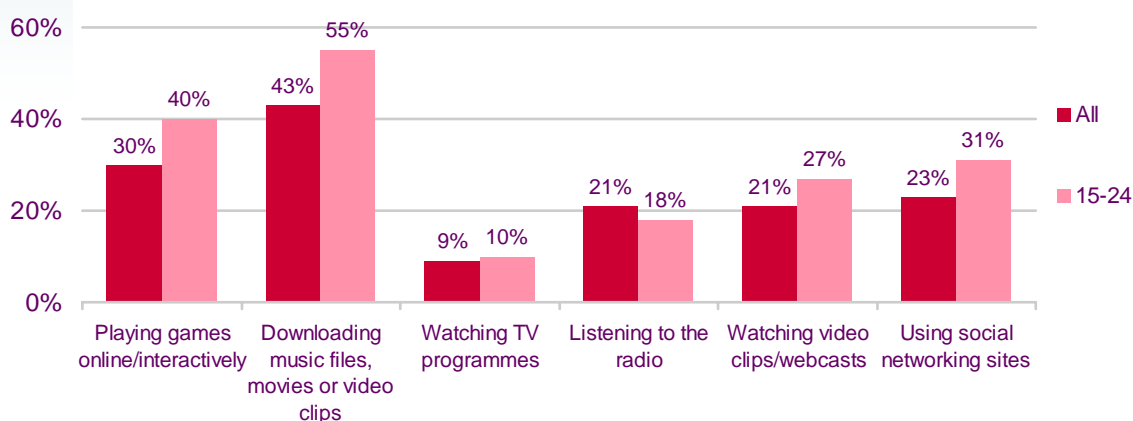
4.53 As we identified in our strategic framework, convergence means that more services are now available on a wide range of communications platforms. Any given service is increasingly being delivered by multiple, competing platforms.

4.54 For example, multichannel TV is available over Digital Terrestrial Television (DTT), free and pay satellite as well as over broadband access networks. Our research shows that a significant share of UK internet users, and in particular younger users, now access media and communications services online, as shown in Figure 10 below.



**Figure 10: Use of the internet for media and communication activities, Q1 2007**

% of adults who use the internet at home



Source: Ofcom research

4.55 These developments are exposing differences in the regulatory frameworks applicable to services delivered over different platforms. For example, many of the rules applicable to content delivered by traditional broadcasters do not apply to very similar or identical content delivered over the internet. Many of these differences are appropriate as different expectations are placed by consumers on different platforms. In some areas, regulatory approaches may need to be adjusted to reflect the new delivery mechanisms and ways of consuming communications services.

### Ofcom has a specific role to play in the changing economic and legal frameworks

4.56 Wider external developments over the past year have indicated the need for communications regulation to have a profound engagement with issues affecting different parts of the UK while at the same time increasing focus on policy-making at the EU level and globally. In the coming year we will be working with the Government's Convergence Think Tank to contribute to the emerging thinking about the future evolution of legislation in the communications sector.

4.57 We need to continue reflecting the needs of everyone within the UK in our regulatory proposals, and to engage appropriately with devolved governments in Scotland, Northern Ireland and Wales. We also need to pay attention to specific issues that affect the English regions across our policy work.

- 4.58 A number of European developments will shape the legal and regulatory frameworks for years to come. Among the key developments in this area is the European Framework Review, which will result in a set of new directives for electronic communications. We will also need to work with the Department for Culture, Media and Sport (DCMS) and the Department for Business, Enterprise and Regulatory Reform (BERR) to develop a robust approach to implementing the Audio Visual Media Services (AVMS) Directive in the UK. And we need thoroughly to engage with the European Commission on proposals for a supra-national regulatory agency to ensure that the interests of UK citizens and consumers are best represented in this debate.
- 4.59 One specific issue that has increased in prominence in the last year is internet content regulation. In a converged communications environment, the boundaries between different platforms will increasingly blur. In this situation we need to consider how the content rules should evolve to reflect the increasing use of new platforms such as the internet and mobile phones for content delivery. As UK children and adults consume media content in new ways, we will work with the Government and the industry to promote access to simple and effective protection mechanisms. At the same time, we need to consider the role of media literacy in allowing consumers to make informed choices about the content they consume.

**Ofcom's work programme for 2008/09 has been designed to take into account the implications of these developments**

- 4.60 The developments in convergence and the launch of new, innovative services are exciting. They offer the prospect of new forms of consumer benefit, and new ways for citizens to interact and engage with society. However, they also pose a number of specific challenges for regulation.
- 4.61 We believe that the overall three-year strategic framework outlined in Ofcom's annual plan last year continues to be appropriate. This framework provides a means to focus on the key areas of market development, and to concentrate our effort on delivering our duties in the most effective way.
- 4.62 However, the specific challenges posed by developments in the last year will need to be reflected in Ofcom's work for the coming year. As a result, the following section outlines our specific work programme for the coming year, including a number of top priority areas that we feel will be critical to delivering on our statutory duties in 2008/09.



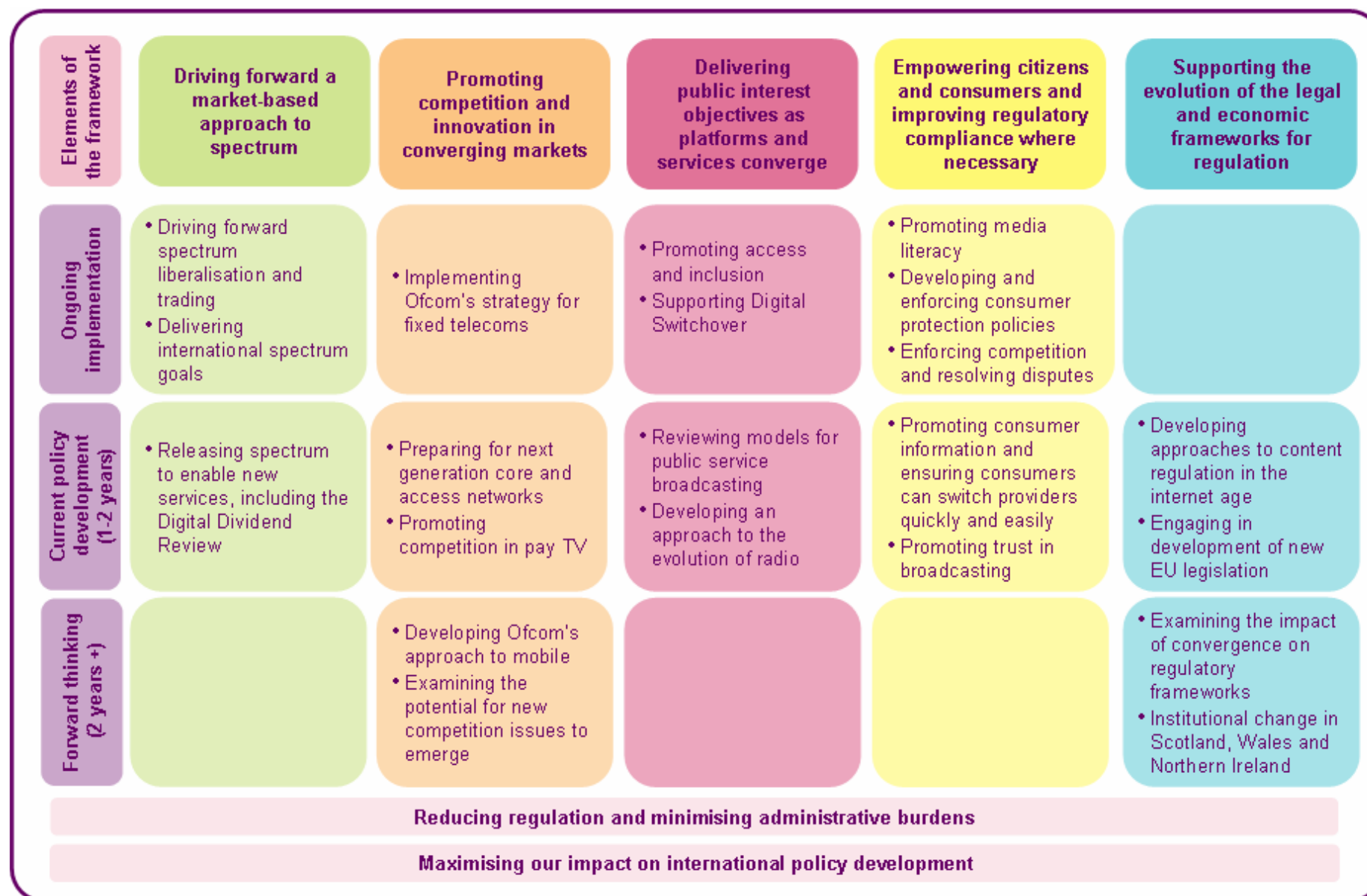
## Section 5

# Implications for Ofcom's work programme

- 5.1 The analysis set out in the previous section suggests that Ofcom's focus on encouraging convergence and ensuring that its benefits are enjoyed throughout the UK remains the right one. At the highest level, the key elements of our strategic framework last year continue to be highly relevant to these aims. However, the fast pace of change in the market means that Ofcom's approach in some specific areas needs to be adjusted.
- 5.2 Some developments occurred faster than anticipated – for example, market changes highlighted the need for an early review of public service broadcasting. In other areas, developments in convergence are yet to materialise in a significant way. For example, while there remains potential for new bottlenecks in the market, key competition concerns remain with more traditional issues.
- 5.3 At the same time, a number of new developments suggest additional areas of focus for Ofcom's activities. One such example is the need to consider our long-term approach to the mobile sector, which emerged as a key area in our strategic analysis this year.
- 5.4 The developments set out in our analysis suggest a number of areas for Ofcom to address in 2008/09, as shown in Figure 11 on page 25. There are three types of activities:
- **Ongoing implementation:** these are activities resulting from past policy projects which are now being implemented, for example Ofcom's work on Digital Switchover and the implementation of the telecoms strategic review. While major policy development work has sometimes largely finished, focus on smooth implementation of these policies is vital to achieving the aims of regulation.
  - **Current policy development:** this category includes areas where we originally planned policy development in 2008/09, for example our work on the Digital Dividend Review. There are also a number of new areas which emerged from developments over the past year such as the PSB Review.
  - **Forward-thinking:** areas of work looking to identify future issues for communications policy and regulation. This includes work on examining potential new competition bottlenecks resulting from convergence and preparation for new UK legislation.



Figure 11: Strategic policy framework and major work areas for 2008/09



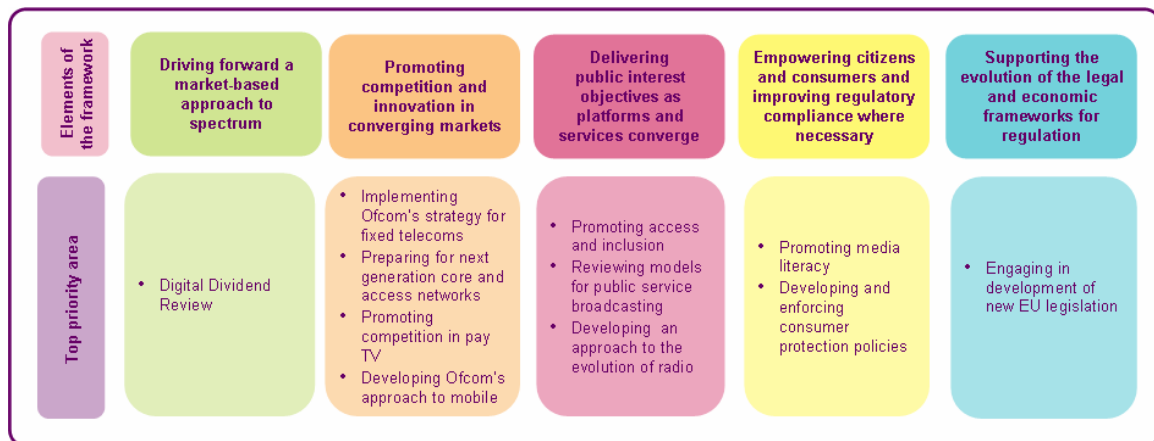
## Enhancing Ofcom’s ability to deliver on key critical areas

- 5.5 Our analysis of market developments also suggests that there are a number of areas where delivery is particularly vital in the short term. At the same time, developments in convergence increase the number of challenges that Ofcom needs to address across the board. To ensure that we are well-equipped to deliver on Ofcom’s commitments towards UK citizens and consumers we looked to enhance our ability to plan and focus on the most critical work.
- 5.6 This year we have introduced two changes to our planning process to help focus and prioritise our work more efficiently:
- we have identified a number of top priorities within our work programme. These are those projects that it is especially critical we deliver on; and
  - we will reserve a share of Ofcom’s capacity next year explicitly for dealing with unexpected issues arising in the course of the year.

## A number of work areas are critical to the long-term needs of citizens and consumers

- 5.7 Delivering on all areas of the work programme is vital for Ofcom to meet its statutory duties for citizens and consumers. However, within this work programme there are a number of issues that will be particularly critical for citizens, consumers, our stakeholders and Ofcom in the coming year. These are those elements of our work that will deliver the greatest potential benefits to citizens and consumers, those that address the greatest risks for citizens and consumers, and those areas that are most time-sensitive.
- 5.8 We have identified several priority areas for the coming year, as outlined in Figure 12 below. These were reached following input from Ofcom’s statutory advisory bodies that look after specific elements of consumer and citizen interests.

Figure 12: Highest priority areas for 2008/09



- 5.9 Ofcom will work to ensure that these highest priority areas are adequately resourced to ensure delivery of our stated plans. Where additional resource requirements arise in the course of the year due to unexpected developments these areas will take precedence over other areas of activity.

5.10 However, designating highest priority areas does not mean that other areas of policy and operational work identified for 2008/09 are not critically important. All the areas of policy work we have planned have been identified in our planning process as key to Ofcom fulfilling its duties towards citizens and consumers. We will continue to work to ensure that our plans in all areas of the work programme are fulfilled to the highest possible standard, alongside delivering outcomes on the key critical areas identified.

### **Ofcom needs to tackle efficiently new issues arising during the year**

5.11 The second change to our planning process is to reserve a share of our capacity for unplanned work to enable us to respond quickly and efficiently to any urgent citizen and consumer issues arising in the course of the year.

5.12 Our experience over the past four years has shown that, while our strategic framework enables us to identify key areas to address for the longer-term future, the complexity and fast-paced nature of change in the communications sector means that unexpected issues will inevitably arise.

5.13 Ofcom has had to adjust its plans in a variety of areas over the past year due to unplanned external developments. Examples include:

- bringing forward the PSB Review by nearly a year in response to accelerating pressures on the commercial public service broadcasting model;
- being called to provide evidence in the Competition Commission's investigation of BSkyB's purchase of a stake in ITV. This required a significant research and analysis effort from Ofcom; and
- conducting a comprehensive analysis programme to support the submission of evidence to the Government's review of internet content controls (the Byron Review) launched in September 2007.

5.14 To ensure that Ofcom has sufficient resource to carry out such unplanned tasks without compromising our ongoing work, we are reserving a share of capacity for unexpected tasks in 2008/09. This share will vary between Ofcom's different functions, depending on the past record of unplanned work in particular areas of regulation. Our plans will then be updated every quarter to make sure we keep pace with the rate of market change and address important issues as they arise.

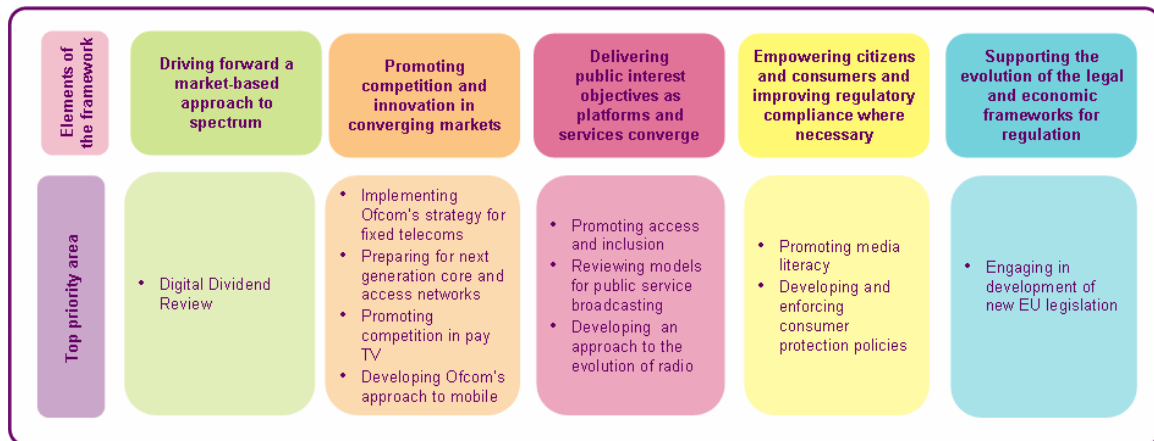
## Section 6

# Detailed policy work programme

6.1. This section describes the key activities planned under each of the areas of highest priority. This is followed by an overview of plans for activities under other major areas of work, grouped by the element of the strategic framework.

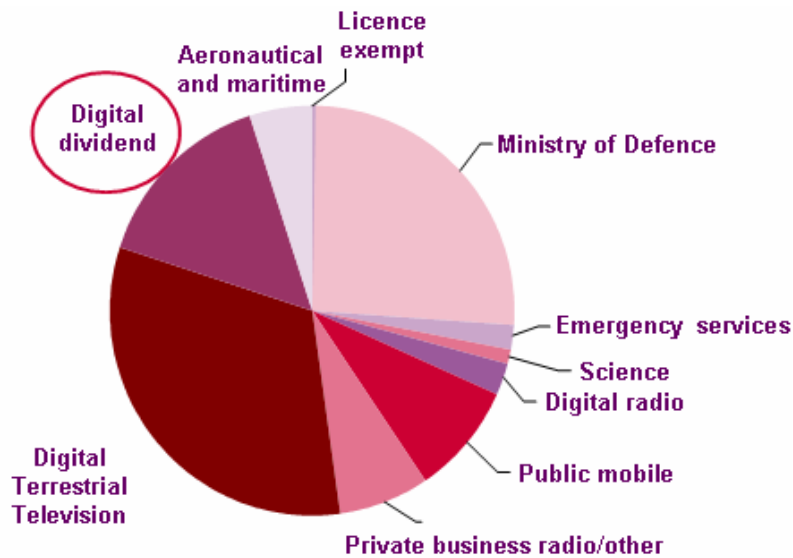
### Top policy priorities in 2008/09

Figure 13: Highest priority areas for 2008/09



### Digital Dividend Review

- 6.2. The Digital Dividend Review is considering how the spectrum freed up by digital switchover should be awarded.
- 6.3. We consulted on proposals between December 2006 and March 2007, and we will publish a statement setting out our decisions later this month.
- 6.4. We will conclude consultations on detailed award design early in 2008/09. Following this, we aim to publish further statements, information memoranda and draft regulations for the awards during the course of the summer. We aim to conduct the major awards in early 2009.

**Figure 14: Use of 200 MHz to 1 GHz at Digital Switchover**

Source: Ofcom

### Implementing Ofcom's strategy for fixed telecoms

6.5. Central to competition in the fixed telecoms sector will be to ensure that BT Group plc continues to comply with its Undertakings by giving competitors equivalent access to the wholesale products they need to provide services to end users.

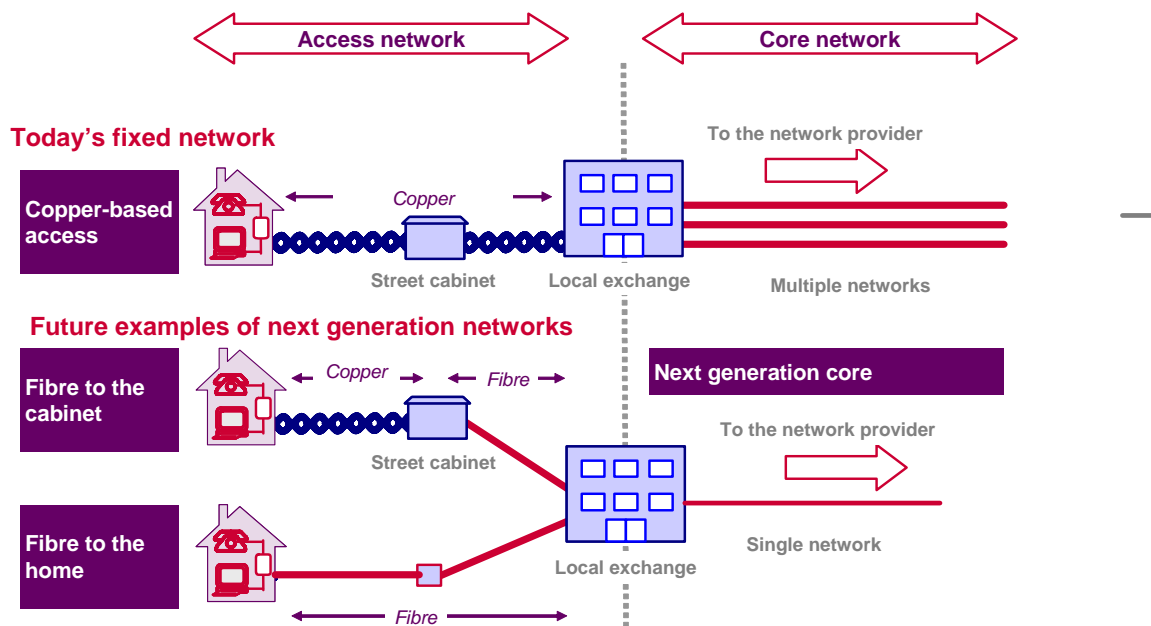
6.6. In 2008/09 we plan to focus on four key areas:

- 1) Ensuring that BT Group plc implements its Undertakings effectively by:
  - monitoring BT's 21<sup>st</sup> Century Network deployment plans to ensure that BT delivers on its equivalence of inputs obligations as well as the requirement not to foreclose network access;
  - monitoring BT's progress against the agreed milestones for operational systems separation;
  - restructuring the current Service Level Agreements and Service Level Guarantees such that Openreach's incentives are better aligned to the delivery of high-quality services;
  - refining Openreach's financial framework to take account of recent changes in the market and to support the development of next generation services;
- 2) promoting competition in broadband markets, which will include implementing our new policy for the wholesale broadband market, and sustaining our commitment to local loop unbundling;
- 3) promoting competition in the leased line market which will include completing our leased line market review; and
- 4) committing to undertake retail and wholesale narrowband market reviews.

## Preparing for next generation core and access networks

- 6.7. The move to next generation core and access networks presents exciting opportunities for citizens and consumers in terms of new applications and services, and potentially significant new benefits. It also raises the prospect of significant benefits for the UK economy. However these developments also bring a number of new challenges for regulation.
- 6.8. Deployment of next generation core networks (NGN) is already in progress by a number of operators, and BT is currently in the process of deploying its own, 21<sup>st</sup> Century Network (21CN). It is important to ensure that consumers do not suffer during the period of migration. This means making sure that consumers and businesses are informed of any likely impact on their services, and that the risks of service failure are managed carefully.
- 6.9. At the same time, we need to consider the implications of next generation networks for the competitive dynamics of the UK communications sector. The economics of these new networks may be significantly different from those of today's networks, and the implications for competition may be profound. We need to work on developing a converged approach to IP-based interconnection which allows all operators to benefit from the efficiency gains associated with next generation core network deployments, and which therefore supports sustainable competition.
- 6.10. On next generation access (NGA) networks, we must consider the right approach to regulating these networks where there is significant market power. These are significant and potentially risky investments. We must also ensure that inappropriate regulation does not discourage efficient investment.
- 6.11. At the same time, it is important that we promote competition in next generation access networks. History has shown us that consumers benefit most from a competitive communications market, with benefits including choice, innovation and price reductions. This will continue into the future: we therefore need to be concerned about competition issues posed by next generation core and access networks. There may also be citizen interest considerations for these new developments, including issues around availability of services and the questions of differentiated availability. We will address these risks in conjunction with our work on access and inclusion.

Figure 15: Next generation core and access networks



Source: Ofcom

6.12. The key activities for the coming year include:

- following our next generation access consultation in 2007, we will publish a statement on Ofcom's preferred approach to the regulation of next generation access investments;
- we will develop the appropriate regulatory environment for those areas of the UK that have fibre deployed to new build premises;
- we will work to ensure that fixed network operators, including BT, manage risks during the next generation core network transition period and that disruptions to services provided to consumers and businesses are minimal;
- we will examine the impact of next generation core networks on communications markets; and
- we will work to reflect next generation core network developments in the telecoms regulatory framework to ensure effective competition.

### Promoting competition in pay TV

6.13. The pay TV market has seen substantial growth in recent years, and is now worth £4 billion per year. Subscription revenues are now more important than advertising revenues as a source of funding for the broadcast industry. Recently, the industry has seen a number of significant developments, including:

- the emergence of new platforms for delivering pay TV services (DTT, IPTV, Mobile TV);

- the consolidation, restructuring and re-branding of the existing cable platform;
  - measures by the European Commission to change the way in which key football rights (those at the Football Association Premier League) are sold to enable more players to enter the market; and
  - a proposal by BSkyB to launch a new pay TV platform using DTT spectrum which is currently used for Freeview free-to-air channels.
- 6.14. The result of these developments will shape the sector for years to come. Early in 2007 we received a submission from four major industry stakeholders. This submission asked us to investigate the pay TV industry and to consider whether to make a market reference to the Competition Commission under the Enterprise Act 2002.
- 6.15. Under our general duty to promote competition, we have carried out a considerable body of work in 2007 to understand how the market operates in the UK. Following this work, we expect to consult on this towards the end of 2007 or early in 2008. We are seeking a wide range of views on our preliminary understanding of the market. We expect to carry out a further consultation in summer 2008, setting out any more specific proposals which arise from our initial consultation, and to conclude the process by the end of 2008 or early 2009.
- 6.16. There are several projects which are linked to this market investigation. These include:
- our current consultation on licence variations requested by NGW and Sky which would allow Sky to replace its three free-to-view channels on DTT with a pay service. A consultation on this topic closes on 14 December. We expect to issue either a statement on this consultation, or a further consultation setting out more specific proposals, in spring 2008; and
  - a review of the market for TV platform services planned for 2007, in order to consider which TV platforms have market power, and the appropriateness of solutions such as the existing 'conditional access' remedy for addressing this. This market review is now on hold, pending the conclusion of the market investigation, although we expect it to recommence towards the end of 2008.

### **Developing Ofcom's approach to mobile**

- 6.17. The mobile sector is facing significant change, so the time is now right to conduct an assessment of Ofcom's overall approach to regulation of the sector. This work has two main objectives:
- first, to consider possible approaches to the future regulation of the mobile communications sector, including scope for the promotion of competition and the reduction of regulation.
  - second, to define the principles that will inform Ofcom's work for the next phase of the market's development.
- 6.18. The assessment will consider a broad range of issues, including: the implications of continuing convergence; the aims of regulation; identifying the scope for deregulation, innovation and competition in the mobile market; and the implications



of the continued growth in mobile services for competition more generally. Ofcom will publish the guidelines for this assessment separately.

### **Promoting access and inclusion**

- 6.19. Part of Ofcom's general duty to further the interests of citizens and consumers is related to securing the availability of a wide range of communications services throughout the UK. Alongside this duty are a number of specific requirements to ensure that barriers to access for these services are reduced for particular groups, such as people living in rural areas and disabled people.
- 6.20. We have therefore planned a programme of work for 2008/09 in the area of promoting access and inclusion, with the following objectives:
- identifying and understanding the nature of obstacles to delivery and take-up of services;
  - assessing the extent and significance of these obstacles; and
  - considering whether Ofcom can or should act to remove or reduce them, either directly or through a facilitation role.
- 6.21. This area of work will include projects examining how services vary across the UK and Ofcom's approach to services for disabled communications users.
- 6.22. We will also consider options for funding and providing universal service as competition develops and as customers' needs change. Our work on universal service will include continued implementation of the new social tariff scheme, BT Basic, as well as an analysis of possible developments to the text relay service.
- 6.23. This work will also develop Ofcom's input to the UK's response to the European Commission's White Paper on Universal Service due in spring 2008.
- 6.24. We will also take forward policy work developing an Ofcom-wide strategy on easily usable equipment.

### **Examining future models for public service broadcasting**

- 6.25. The Communications Act 2003 requires Ofcom to carry out a review of public service television broadcasting at least once every five years. It requires us to report on the extent to which the public service broadcasters (PSBs) have fulfilled the purposes of public service television broadcasting, and to make recommendations with a view to maintaining and strengthening the quality of PSB in the future.
- 6.26. The Review started in September 2007 with the publication of the terms of reference. We anticipate that the Review will be conducted in two phases with accompanying consultations, the first in spring 2008 with policy options published later in the autumn and a final statement early in 2009.
- 6.27. The Review has four key objectives:
- to evaluate how effectively the public service broadcasters are delivering the purposes and characteristics of PSB, particularly in the light of changes in the way TV content is distributed and consumed;

- to assess the case for continued intervention in the delivery of TV content to secure public service purposes;
  - to consider whether and how the growth of new ways of delivering content to consumers and citizens might create new opportunities for achieving the goals of public service broadcasting, as well as posing new challenges; and
  - to assess future options for funding, delivering and regulating public service broadcasting, in light of these challenges and opportunities, and uncertainty about the sustainability of existing funding models.
- 6.28. This review will need to look beyond traditional broadcast services. The distinctions between 'TV' and 'non-TV' services have become increasingly blurred. The public service broadcasters have already adopted new methods of distributing TV content to consumers, exploiting the potential of new on-demand and interactive media, including the BBC's iPlayer, Channel 4's video on demand and catch-up services, and ITV's Local broadband service. These new forms of content and methods of delivery have the potential to help deliver the purposes of public service broadcasting in new ways. As a result, the core focus of this review is on the public service television services, but it will also assess the potential for new platforms and services to contribute to public purposes, including those provided by non-traditional public service broadcasters.
- 6.29. During the period of the Review, Ofcom will engage extensively with a wide range of stakeholders across the UK to gather views and opinions.

### **Developing an approach to the evolution of radio**

- 6.30. We have three key strands of activities to support the ongoing evolution of the radio platform:
- we will contribute fully to the planned cross-industry Digital Radio Working Group, which will be discussing the future digital options for radio broadcasters, and the criteria which would need to be taken into account before any switch-off of analogue radio services could be considered;
  - we will also implement a new regime for the regulation of analogue commercial radio stations' formats, derived from the final outcome of the consultation on issues relating to the regulation of content diversity and localness; and
  - finally, we will work with the government should it decide to take forward further work on amending legislation in relation to the radio ownership rules, commercial radio licensing (to allow for greater flexibility) and community radio regulation.
- 6.31. In addition to the work outlined above, we will undertake a large programme of work in relation to the licensing and regulation of radio broadcasting. This is described further on page 40.

### **Promoting media literacy**

- 6.32. We have now built a substantial evidence base to guide our work to promote media literacy and have gained significant support from a wide range of stakeholders for the need to promote the media literacy of all sections of society. Throughout 2007 we have been in discussion with both internal and external

stakeholders in a review of our priorities for the next three years. In response to this review we intend to increase our investment in media literacy over the next three years, with a particular emphasis on empowering consumers.

- 6.33. For people to be able to benefit from new communications technologies they must be able to make informed choices and have the tools available to manage their relationship to content. We will encourage all content providers to promote and make available information about potentially harmful or offensive content in a form that is easy to use and understand. We are encouraged by the important work of the Broadband Stakeholders Group which has been seeking to agree common principles for the provision of information about potentially harmful and offensive commercially produced and acquired content on all platforms. We hope this work leads to an industry-agreed good practice code which will empower users to make informed choices and better manage their family's relationship to commercially produced and acquired audiovisual content.
- 6.34. At the same time as these initiatives, we will also encourage the promotion and development of technological tools, such as internet filters, firewalls and PIN access to television services that are easy to use and are effective in helping people manage their access to media. The continuing work of industry to develop a technical standard and kitemark scheme will lead to internet filters that are more effective in blocking inappropriate content and offer greater support to parents in their use.
- 6.35. In 2008/09 we will work with a range of partners including adult education providers, UK Online centres, libraries and other support networks to ensure that information is made available to those sections of society who are not yet online and who may be hard to reach.
- 6.36. We will continue to undertake research into people's attitudes and preferences when using digital communications technologies. In the coming year we will publish the findings from a second wave of our Media Literacy Audit (first published in 2006). This will help Ofcom and other stakeholders to identify trends and changes in people's behaviour and highlight new emerging issues which need to be addressed.
- 6.37. Finally, many of the challenges people face online arise from outside the UK. In response to this, we will establish a forum to enable researchers into media literacy to share their findings and best practice to enable us all to address the global nature of many of the common issues we face.

### **Developing and enforcing consumer empowerment and protection policies**

- 6.38. This work includes a project to establish a strategic approach to empowering consumers, ensuring that there is appropriate consumer protection, and taking enforcement action where there is inadequate compliance.
- 6.39. This includes a project on switching and mis-selling issues to ensure that the processes enabling customers to change providers easily are effective. The project will implement improvements to existing industry processes for switching providers and consider how industry processes need to develop as providers increasingly supply complex bundles of services to consumers.
- 6.40. The work will also implement proposals to address mis-selling and cashback issues in the mobile industry. It also includes the implementation of the review of

the scope, purpose and effectiveness of premium rate services regulation and our work with Ofcom's enforcement team on cases such as silent calls.

### **Engaging in development of new EU legislation**

6.41. There are several critical areas of EU-level policy development for Ofcom to focus on in 2008/09. We will:

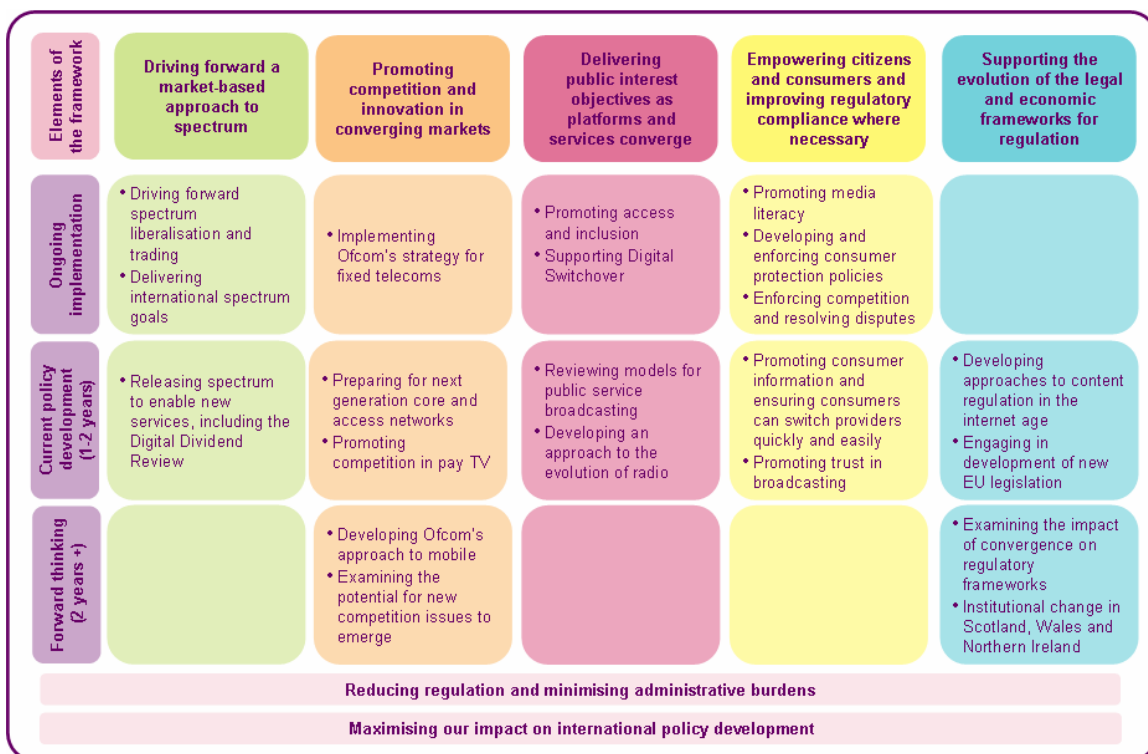
- work with the UK Government to ensure that the interests of UK citizens and consumers are fully represented in the Review of the European Framework for electronic communications;
- provide significant input to the Review of the Consumer Acquis following the initial consultation carried out by the Commission in 2007;
- be actively addressing a number of new European Commission initiatives, including the EU-wide approach to digital dividend and mobile television services as well as the EU content online initiative; and
- contribute to the EU review of Universal Service and, if the Commission brings forward proposals, the review of the E-commerce Directive.

### **Wider work programme for 2008/09**

6.42. In addition to the top priority areas identified above, we also have a number of other major projects and activities included in our proposed work programme for next year. This section provides details on our wider work programme, describing the major areas of work planned for 2008/09. They fall into the following categories, as detailed in Figure 16:

- driving forward a market-based approach to spectrum;
- promoting competition and innovation;
- ensuring the delivery of public interest objectives;
- empowering citizens and consumers and improving regulatory compliance where necessary;
- considering the evolution of legal and economic frameworks for communications regulation;
- continuing to reduce regulation and minimise administrative burdens; and
- maximising our impact on international policy development to best represent the interests of UK citizens and consumers.

Figure 16: Ofcom's proposed work programme for 2008/09



## Driving forward a market-based approach to spectrum

6.43. In 2008/09 Ofcom will continue focusing on establishing a market-based approach to spectrum management to achieve the optimal use of this valuable resource and to maximise benefits from competition and innovation in wireless services for the UK society and economy. In applying a market-based approach, Ofcom will have a less intrusive role thus allowing competition to determine the most efficient uses of spectrum while at the same time reducing administrative burdens for service providers. In transition to a market-led approach, we need to ensure that we carefully consider appropriate ways of addressing public policy goals which in the past were directly supported via command and control regulation of spectrum. To achieve these goals, we are planning the following activities next year:

- **Digital dividend review** – details of this top priority work programme area are discussed earlier in this section.
- **Driving forward spectrum liberalisation and trading**

This continues to be a key goal for Ofcom, and the work in this area includes:

- the application of spectrum trading and liberalisation to the mobile sector;
- implementing liberalisation and spectrum trading for business radio licences;
- implementing the recommendations of the Cave Audit, in particular defining the spectrum access rights of public bodies to facilitate trading;
- the application of spectrum pricing for the use of radar services;

- facilitating more efficient spectrum markets by providing better information about current spectrum use; and
- reviewing the implications of spectrum trading to improve the clarity and certainty provided by the process to spectrum users.
- **Releasing spectrum to enable new services** (other than the Digital Dividend Review).

Carrying out our programme of spectrum awards will be a continuing priority in 2008/09. Making more spectrum available to the market will be critical in enabling the development of platforms for the next generation of converged services and in creating opportunities for innovation. We plan to carry out work in the following key areas of awards, as shown in Figure 17 below. In addition, we will review all other spectrum bands to consider if other awards are appropriate.

**Figure 17: Key areas of spectrum awards 2008/09**

BAND	MAIN POTENTIAL USES
<b>Completing awards</b>	
2.6 GHz award (2500 to 2690 MHz and 2010 to 2025 MHz)	Wireless broadband technologies such as WiMax , UMTS , or LTE* and wireless cameras
872 to 876 MHz paired with 917 to 921 MHz	Business radio and public access mobile radio
<b>Exploring scope for new awards</b>	
2290 to 2310 MHz	Wireless cameras
3.4 to 3.8 GHz	Mobile broadband technologies

\* LTE stands for "long-term evolution" and is the next step in cellular mobile technologies in the GSM/WCDMA family of technologies

- **Delivering international spectrum goals** – we will work on promoting a market-based approach to spectrum internationally, and developing a stable international framework to underpin our spectrum awards programme.

**Promoting competition and innovation in converging markets**

6.44. A competitive environment for the delivery of communications services is key to fulfilling Ofcom’s duties towards citizens and consumers. Effective competition brings consumer benefits through choice, innovation and price reductions. Specific projects in this work programme area include:

- **Implementing Ofcom’s strategy for fixed telecoms** – details of this priority work programme area are discussed earlier in this section.

- **Preparing for next generation core and access networks** – details of this priority work programme area are discussed earlier in this section.
- **Promoting competition in pay TV** – details of this priority work programme area are discussed earlier in this section.
- **Developing mobile sector strategy** – details of this priority work programme area are discussed earlier in this section.
- **Enforcing competition and resolving disputes** – we will continue our work on existing competition investigations and disputes, and address any new issues emerging in 2008/09.
- **Examining potential for new competition issues to develop** – we will continue monitoring the markets to assess potential for new sources of market power to emerge. We will examine options for addressing any identified new sources of competitive distortions.
- **Additional policy projects.** In addition to the above, we will also:
  - implement the policy approach for the wholesale broadband market set out in the our review of the wholesale broadband access market;
  - conclude the leased lines market review, and examine charge controls in this market;
  - assist the Office of Fair Trading in the review of the Contract Rights Renewal (CRR) remedy;
  - carry out several projects to promote competition in the mobile sector, including in the areas of number portability, and the directory enquiries (DQ) markets;
  - review the mobile numbering plan and domestic numbering policy arrangements; and
  - carry out Market Impact Assessments in relation to new TV and radio services being developed by the BBC, with our conclusions then to be considered by the BBC Trust.

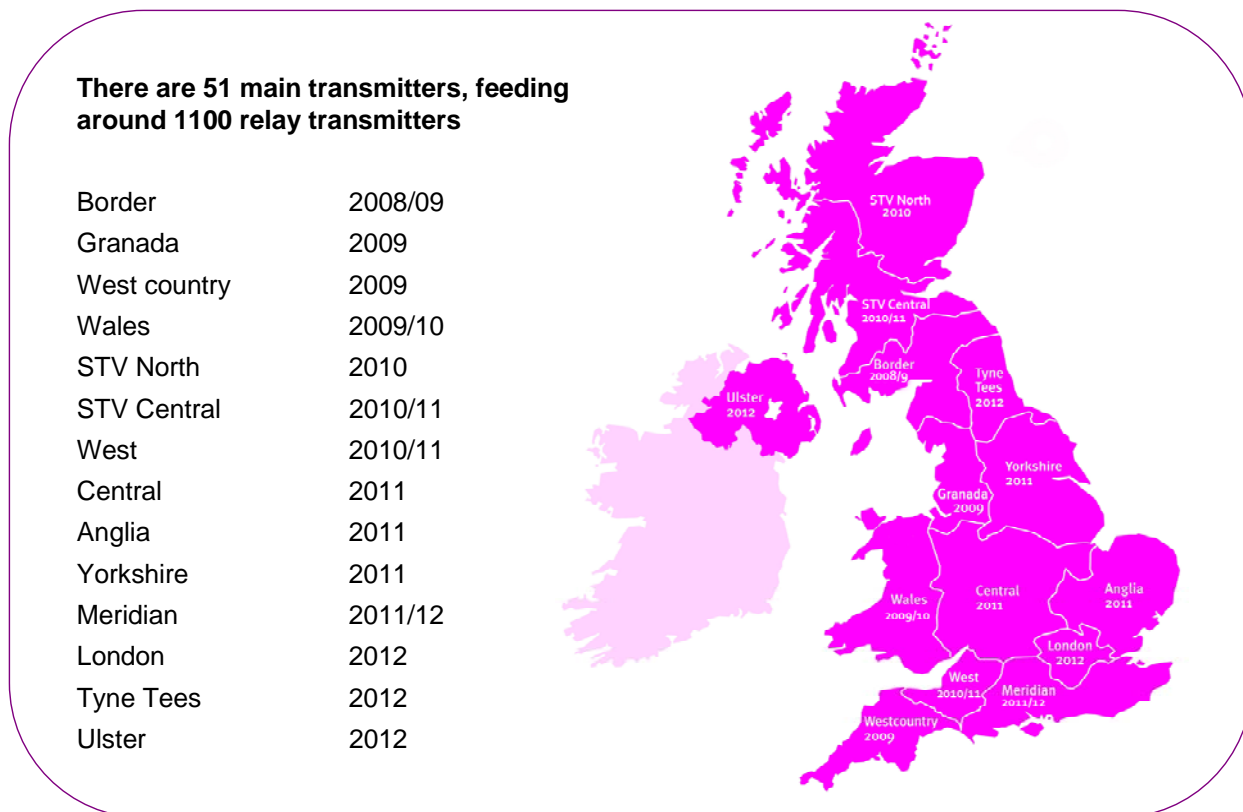
### **Delivering public interest as platforms and services converge**

6.45. Delivering on public interest objectives may grow increasingly difficult as the trend towards convergence increases as discussed in Section 4. We have planned a number of activities aiming to maintain delivery of public interest objectives in the converging market environment:

- **Examining future models for public service broadcasting** – details of this priority work programme area are discussed earlier in this section.
- **Developing an approach to the evolution of radio** – details of this priority work programme area can are discussed earlier in this section.
- **Supporting digital switchover** – we will assist Digital UK and the Government in ensuring a smooth transition to digital television – the process

kicked off in 2007 that is expected to complete in 2012. We will support this process throughout our activities in licensing, spectrum management and international spectrum co-ordination work as well as in research and relevant policy activities.

**Figure 18: Switchover map and sequence**



Source: Digital UK

- **Maximising efficient use of DTT spectrum** – we will continue our work on reorganising the DTT multiplexes to increase the efficiency of spectrum used by the terrestrial broadcasters, potentially allowing new services such as High Definition television, on the platform:
  - in 2008/09 we will work closely with DCMS and the relevant broadcasters and multiplex operators to implement a reorganisation of the multiplexes, and to determine the allocation of capacity for any new services; and
  - we will also continue to work closely with the public service broadcasters, multiplex operators and other relevant parties to ensure that this process runs as smoothly as possible. In particular we will work closely with Digital UK on providing information to consumers about these changes.
- **Regulation and licensing of radio broadcasting** – in addition to developing an approach to the evolution of radio (described on page 34), we have planned a significant programme of work in relation to the licensing and regulation of radio broadcasting:
  - the re-advertisement of existing local analogue commercial radio licences as they approach expiry;



- preparation for the future re-advertisement (by auction) of the three national analogue commercial radio licences;
- continuation of the programme of licensing new DAB local radio multiplex services, to facilitate the provision of local DAB services in every area where such provision is viable;
- where appropriate, extending and renewing existing local analogue commercial radio licences to increase their duration in accordance with statutory requirements – during 2008/09, we will also wish to consider the process for the renewal of the first national radio multiplex licence;
- completion of the second round of licensing new community radio services, and consideration of what form any further community radio licensing might take;
- the ongoing licensing of all other non-BBC radio broadcast services, including restricted services and digital sound programme services;
- content sampling of commercial and community radio services to ensure compliance with licence conditions;
- consideration of requests from licensees for variations to their licences, e.g. changes to the line-up of services on a DAB radio multiplex service; and
- ensuring compliance with the statutory media ownership rules, including the carrying out of any reviews required following a change of control.

### **Empowering citizens and consumers and improving regulatory compliance where necessary**

6.46. We continue to believe that delivering consumer and citizen interests will be facilitated by ensuring that they are empowered to make informed decisions. This is therefore one of our main work programme areas. At the same time, in a convergent communications sector, the role of Ofcom in improving and monitoring compliance will also increase. Specific projects in this area include:

- **Developing and enforcing consumer empowerment and protection policies** – details of this priority work programme area are discussed earlier in this section.
- **Promoting consumer information and ensuring consumers can switch providers quickly and easily**

We will work to enhance provision of information to consumers via implementation of the accreditation scheme for price comparison websites.

In addition, we will work to improve the provision of information on Quality of Service (QoS) to consumers by expanding the current Topcomm scheme to include broadband and mobile services in addition to fixed line services.

We will also progress our work on improving switching processes. The aim of this work is to ensure that current processes do not inhibit consumers' ability to switch – both for single migrations and in relation to bundled product offerings.

- **Promoting trust in broadcasting**

In 2007/08, Ofcom identified a number of serious systemic failures in broadcasters' compliance. This highlighted the continuing need, in an increasingly complex and converged world of communications, to place a high priority on consumer protection through the enforcement of Ofcom's rules.

Regulation of broadcast content will also continue to cover many other areas such as guarding against unwarranted infringements of privacy and ensuring that those who decide to participate in programmes are treated fairly.

Ofcom will therefore continue to review its approach to this form of content regulation (often referred to as negative content regulation, i.e. the rules which restrict what can be shown on TV and radio). We will focus on how regulation should evolve, considering the extent to which we should maintain the differences in how content is regulated depending on the platform over which it is delivered. Proposed projects include:

- placing increased emphasis on considering the consumer dimension of content regulation, including the impact of channels dedicated to audience participation (past examples have included adult chat, horoscopes and quiz channels) and participatory elements in mainstream broadcasts where there is a transaction between audience and broadcaster. As this sector develops and innovates, it will be essential that Ofcom continues to keep abreast of developments and reacts swiftly to changes in the market to ensure consumer protection;
- considering the most effective approach to the regulation of broadcast gambling services to ensure greater protection for the public in light of changes in gambling legislation;
- considering the possibility of mandatory encryption (with access via PIN) of free-to-air adult services to ensure greater protection for the public;
- considering how our approach to content regulation should evolve in the light of the implementation of the Audio Visual Media Services Directive;
- making adjustments to the Broadcasting Code and producing additional guidance; and
- improving our process of dealing with complaints and the process by which we consider and impose sanctions.

- **Additional policy projects**

Complaints handling and Alternative Dispute Resolution (ADR):

- we will take forward our work considering the effectiveness of complaints handling by communications providers and the ADR procedures in telecoms; and
- as part of this work we will review current practices and identify ways of achieving more effective complaints handling and ADR, and consumer awareness of procedures in place.

## Considering the evolution of legal and economic frameworks for regulation

6.47. Convergence has exposed a number of issues and challenges to the existing legal and economic frameworks for regulation. Increasingly, these may need to be updated to reflect new methods for service delivery, approaches to service consumption by consumers and commercial business models adopted. Specific projects in this work programme area include:

- **Engaging in development of new EU legislation** – details of this priority work programme area can be found earlier in this section;
- **Developing approaches to content regulation in the internet age** – Ofcom’s principal activity in 2008/09 in this area will be to take forward, with DCMS and BERR, the implementation of the new Audiovisual Media Services Directive; in particular, the development of a new regulatory framework for on-demand television services offered on the internet and on other networks;
- **Examining the impact of convergence on regulatory frameworks** – we will engage with the Government’s Convergence Committee to support its work on considering the impact that convergence will have on the regulatory and legal frameworks in the communications sector; and
- **Institutional change in the UK Nations** – we will continue examining the specific issues affecting the UK Nations as their relationship with London changes, and look to address these issues across our policy work.

## Reducing regulation and minimising administrative burdens

6.48. Ofcom will continue its commitment to reducing regulation and administrative burdens on the businesses it regulates. We seek to do this throughout our policy work, by simplifying rules where appropriate and removing unnecessary intervention which may stifle market development and innovation. In 2008/09 we have planned a number of specific activities in this area, including:

- As part of our work in implementing the new EU Audiovisual Media Service Directive we will carry out a review of Ofcom’s rules on the amount and distribution of television advertising (the RADA review). The project will examine the opportunities to liberalise regulation of the scheduling and volume of advertising on both commercial public service broadcasters and cable and satellite channels;
- In 2008/09, we will continue reducing restrictions on the use of spectrum via a range of activities, for example:
  - we will examine ways of facilitating greater access to spectrum for innovators by providing a clear process for the evaluation of requests and by removing regulatory obstacles where possible;
  - we will look to simplify the licensing of business radio, reducing the number of licence types from 21 to three. This will affect around 35,000 licensees who will benefit from the ability to trade spectrum and from increased flexibility of use; and
  - we will take forward work on licensing the use of mobile phones on aircraft to remove the existing regulatory restrictions;

- We will examine the potential for simplifying and making more accessible the General Conditions. We expect this work to result in a significant reduction of administrative burdens for many communications providers. It will also improve accessibility of the relevant regulation for consumers.

6.49. Our simplification plan, published on Ofcom's website on 6 December, sets out further detail of Ofcom's efforts in this area.

### **Maximising our impact on international policy development**

6.50. In addition to Ofcom's input into major EU-level policy development activities next year (as described earlier in this section), we will work to enhance our ongoing engagement in EU and international policy development in the following key areas:

- **International co-ordination** – we will work to support the international co-ordination dimension of key Ofcom policy projects, for example, in developing our approach to next generation networks and next generation access.
- **Promoting UK interests in international policy-making** – we will maintain a high level of engagement with key policy and regulatory fora such as the International Telecommunications Union and the European Regulators' Group.
- **Enhancing our international engagement** with regulatory and government bodies in key communications markets around the world, for example the USA, China and India.

## Section 7

# Providing services to citizens and consumers

- 7.1 As well as policy development, Ofcom delivers key services to citizens, consumers and other stakeholders such as users of spectrum.
- 7.2 Every year Ofcom expects to receive around 300,000 contacts from the general public asking for advice on consumer issues in the communications marketplace or complaining about poor service provider performance or content issues. In 2007 we took around 45,000 complaints on the Big Brother issue alone. We also receive contact from a variety of stakeholders where Ofcom takes direct enforcement action, for example in keeping the airwaves free of interference.
- 7.3 In 2007 we in-sourced spectrum licensing operations at an annual saving of around £0.5m, including the facility for amateur and maritime licenses to be obtained online. In 2008 we expect to support over 221,000 live licences with over 150,000 renewals and new application transactions, covering satellite, fixed links, private business radio and amateur and maritime spectrum users. This insourcing has been achieved through the implementation of new IS systems. The program will continue in 2008 to enable the future trading of spectrum as part of our market-based approach.
- 7.4 In this section we:
- provide an overview of the services we deliver to stakeholders;
  - describe how we are improving those services; and
  - explain the links between delivering services to stakeholders and achieving our policy priorities.
- 7.5 We have already made significant improvements to our operational services, together with efficiency savings which we detail in Section 8.

## Keeping the radio spectrum free of interference

- 7.6 We monitor the radio spectrum and take action to prevent spectrum interference. The increasing demand for spectrum is leading to more intensive usage and the risk of increased interference, and we anticipate further work as Digital Switchover gathers pace. Our Field Operations team handles around 17,000 cases a year. They take action to:
- protect safety-of-life communications including emergency services and air traffic control;
  - prevent illegal use of the radio spectrum;
  - enable legitimate use of spectrum by, for example, providing advice and assistance to spectrum users; and

- ensure that non-compliant equipment is removed from the market.
- 7.7 Our strategy has been to focus our resources on keeping the radio spectrum free from harmful interference. This has involved a wide-ranging transformation of our Field Operations team, including the organisational structure, property, vehicle and equipment strategy, volume and mix of work, and people-management and culture.
- 7.8 In 2008 we also plan to move to a green vehicle policy as part of our environmental project.
- 7.9 We constantly review our operational procedures and in 2007 introduced a centralised triage function to conduct initial diagnostics aimed at more targeted and faster deployment of the field force.
- 7.10 Our current focus is on reviewing our approach to enforcement to ensure that we obtain the best value for money for maximum effect in the key areas of illegal broadcasting, monitoring and interference resolution.

### **Licensing access to the radio spectrum**

- 7.11 Ofcom licenses access to the radio spectrum by issuing, renewing and revoking licences. Where necessary we make frequency assignments, perform site clearances and co-ordinate the use of spectrum internationally.
- 7.12 In 2007, we in-sourced licensing operations from national and regional centres and also our previous outsourced partner. This was achieved through the implementation of a new licensing and customer relationship management system and will save around £0.5m in cost per annum.
- 7.13 This program also delivered the facility for amateur and maritime licences to be obtained online, with added simplification achieved through the granting of lifetime licences in some categories.
- 7.14 In 2008 we aim to enhance the licensing service by:
- implementing individual fixed link licences to enable easier multiple site reconciliation for service providers;
  - increase the range of electronic licensing services available to stakeholders; and
  - implementing the systems that enable a market-based approach to spectrum for the future.
- 7.15 We will also publish and consult on a draft spectrum plan for the London 2012 Olympic Games and Paralympic Games.

### **Dealing with enquiries and complaints from the public**

- 7.16 Ofcom's Central Operations deal with enquiries and complaints from consumers about telecommunications services, TV and radio services, and use of the radio spectrum. Every month we answer around 21,500 phone calls, 6,700 messages via our website, 1,000 emails and 1,300 letters and faxes.

- 7.17 Consumers often complain to Ofcom about telecoms issues because they have received an inadequate response from their service provider, or because they have been unable to contact them. We aim to help consumers resolve their complaints by pointing them to useful advice and information and liaising with service providers on prevalent issues.
- 7.18 People usually complain directly to Ofcom about TV and radio programmes. Ofcom can consider complaints relating to a number of areas such as protection of under-18s, harm and offence, fairness and privacy, and impartiality and accuracy in news. However, Ofcom does not consider issues relating to impartiality and accuracy in BBC programmes (that is the responsibility of The BBC Trust). We also deal with complaints about programme sponsorship and alleged commercial influence.
- 7.19 The Ofcom Advisory Team also receives enquiries about the use of the radio spectrum, although these are mainly referred to our dedicated Licensing Centre.
- 7.20 We are investing in information systems to improve our call-handling performance in addressing enquiries and complaints. We also aim to optimise the role of the Ofcom Advisory Team in providing early warning about consumer concerns, such as silent calls, slamming and mis-selling. This is against the backdrop of rapidly changing communications markets; new types of complaints therefore arise all the time and create unexpected increases in the number of complaints we receive.

### **Allocating telephone number ranges to service providers**

- 7.21 Ofcom plays an important role in allocating telephone number ranges to communications service providers who, in turn, allocate individual numbers to their customers. The number of applications received from service providers has grown steadily in recent years, exceeding 2,000 for the first time in 2005. Indeed, in the first eight months of 2006, the number of applications had already reached 1,850.
- 7.22 As part of our Strategic Review of Numbering, we have established the following principles governing numbering:
- the numbers consumers want should be available when they are needed;
  - the numbers consumers currently use should not be changed if this is avoidable;
  - the meaning that certain types of numbers have for consumers – such as 0800 and 0300 numbers being associated with free calls – should be maintained;
  - number allocation processes should support competition and innovation; and
  - consumers should not be exposed to abuse.
- 7.23 A number of operational changes will be needed to apply these principles, with the objective of creating a number allocation process which is efficient, more consumer-driven and more market-led. Although changes will take place over a number of years, we have already started to allocate smaller blocks of numbers where there is a danger of shortages occurring.

## **Providing information services**

- 7.24 Ofcom provides the information services which underpin delivery of services to stakeholders, such as enabling the move towards increasing online access to services.
- 7.25 Ofcom inherited 45 different information systems from the regulators we replaced. These legacy systems were mostly bespoke, and based on differing platforms and technologies. We therefore revised our information systems strategy to enable us to meet our business requirements and during 2007 we completed Phase 1 of our transformation programme, delivering in-sourced licensing and new interlinked finance and HR systems.
- 7.26 In 2008, we enter Phase 2 of the programme with the aim of delivering savings in the ongoing running costs of our IS systems as well as delivering the functionality required to enable our future spectrum programme, improve our customer contact and deliver enhanced feedback into our enforcement and consumer policy teams.

## **Providing information to consumers via our website**

- 7.27 We will provide information to consumers via our website by issuing, for example, alerts about scams to which they may be exposed. We will continue to develop our website to provide a greater degree of advice for the consumer especially in areas supporting media literacy. We continue to revise our contact mechanisms to enable easier interaction with Ofcom and access to complaints or advice procedures.

## **Publishing market research and communications market reports**

- 7.28 We will publish a wide range of reports on developments in the communications sector and on the attitudes of citizens and consumers:

Our series of Communications Market Reports consists of:

- UK Communications Market – to be published in the summer;
- The Communications Market: Nations and Regions – to be published in the spring; and
- The International Communications Market – to be published in the winter.

We will publish our annual Consumer Experience report in the winter. This report surveys the experiences of communications consumers across all of the sectors regulated by Ofcom.

We will also publish Digital Progress reports on:

- digital TV every quarter; and
- other fast-moving markets on an ad-hoc basis.

We also publish annual Public Service Broadcasting (PSB) reports which assess broadcasters' performance against the purposes and characteristics of PSB.



In addition, we also aim to publish all research conducted to support policy projects.

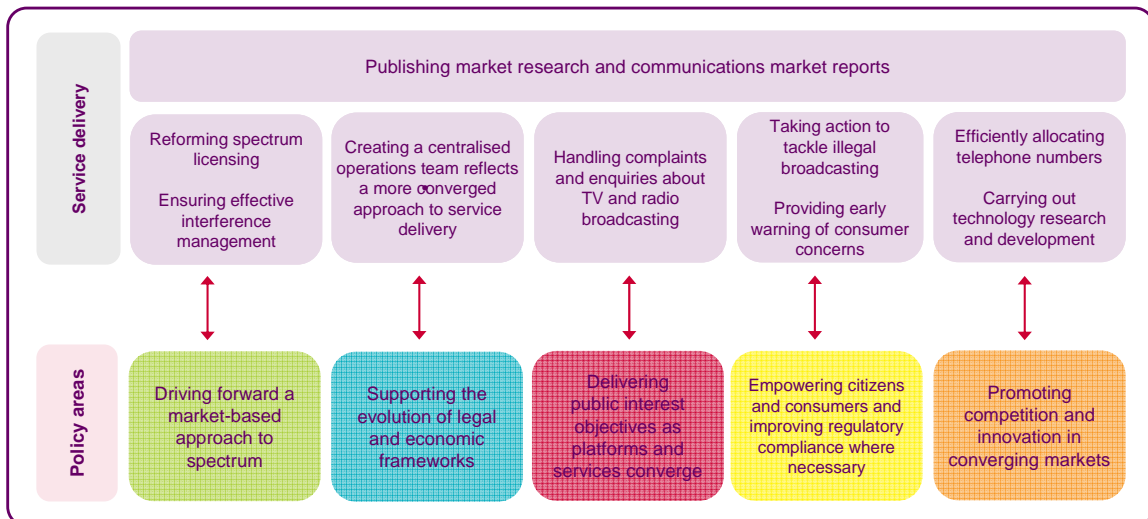
### Links between operational and policy delivery

7.29 The effective delivery of our operational services is closely linked to the key policy areas set out in our strategic framework. For example:

- driving a market-based approach to spectrum will be underpinned by the reform of spectrum licensing and effective interference management;
- developing new mechanisms for delivering public outcomes is supported by Ofcom’s Consumer Services unit, which handles complaints about programmes broadcast on TV and radio;
- improving compliance and empowering consumers will benefit from the early warning system provided by the Contact Centre, and effective action to tackle illegal broadcasting; and
- promoting conditions for competition and innovation will be supported by the efficient allocation of telephone numbers and technology research and development.

7.30 Figure 19 below provides some examples of the important links between the services we provide for stakeholders and the policy areas identified in our three-year strategic framework.

**Figure 19: Links between operational and policy delivery**



## Section 8

# Delivering value to stakeholders

- 8.1 Since its inception Ofcom has maintained its commitment to maximising efficiency of its operations to deliver value for money to stakeholders. Every year since 2003 we have reduced our target budget by at least 5 per cent in real terms compared with the previous year.
- 8.2 On a like-for-like basis, our 2004/05 budget was 5 per cent below the combined budgets of the five legacy regulators, and our 2005/06 budget was 8 per cent lower than our 2004/05 budget. In both 2006/07 and 2007/08 we further reduced our budgeted spend, by 5 per cent each year in real terms.
- 8.3 As noted in our last year's annual plan, following several years of major efficiency-enhancing initiatives, Ofcom is becoming an established organisation with more stable budget requirements.
- 8.4 Convergence means that regulatory challenges are becoming increasingly complex, and the number of areas we need to tackle to address the needs of UK citizens and consumers is growing. As a result, the scope for further budgetary reductions may be more limited in the coming years. We are presently reviewing opportunities for further efficiency gains ahead of setting our budget for 2008/09.

## Enhancing value for money

- 8.5 In the four years of Ofcom's existence we have consistently worked to achieve efficiency savings through streamlining of our activities and investing to improve the effectiveness of our operations:
- Ofcom continues to operate with a headcount of more than 350 less than the 1152 colleagues directly employed by the combined regulators that Ofcom replaced;
  - by the end of 2007/08 the project launched to integrate and rationalise the 70 operating systems inherited from the previous regulators will be well progressed, with the final elements of the programme planned for completion during 2008/09. This project, known as Project Unify, will result in reductions in our information systems expenditure. It will also create a platform to deliver our spectrum licensing strategy and unlock future benefits;
  - restructuring within our Field Operations teams and Contact Operations areas has delivered both significant efficiency savings and organisation structures more able to address and meet the needs of our stakeholders;
  - we continue to operate our technology testing functions on an outsourced basis and benefit from the resultant lower overall costs; and
  - with the termination of leases on a number of surplus properties over the past year, and the successful subletting of vacant space within our London office annualised savings in excess of £3m per annum now accrue.

As a result of these activities, we are now close to having achieved many of the efficiency gains possible without compromising our regulatory duties towards citizens and

consumers. Despite this, Ofcom will continue its focus on enhancing the value for money provided to stakeholders through a variety of initiatives in the coming year:

- we will continue to review our property portfolio on an ongoing basis to ensure both fitness for purpose for the organisation and maximum value for stakeholders;
- we plan to review the tendering processes in place for significant contracts for service provision. The review will aim to improve the efficiency of the services we provide to stakeholders, and will cover both operational and policy areas; and
- we will continue our drive to reduce the volume of printed publications. At the same time we will ensure that all Ofcom's publications can be easily accessed on our website.

### By 2008/09 Ofcom will have finished repaying its set-up loan

- 8.6 Ofcom received a loan from the Department of Trade and Industry to cover its initial set-up costs incurred between March 2003 and January 2004. We have been repaying the loan in instalments since 2003/04.
- 8.7 We will finish re-payment of the loan and the accumulated interest in 2007/08, when we will pay back the remaining £5,362,000. Figure 20 below shows the schedule of repayments and the split of the costs allocated across our different stakeholder groups.
- 8.8 This means that in 2008/09 there will no longer be any contribution to loan repayments required from stakeholders.

**Figure 20: Repayment of the loan to cover the setting-up of Ofcom**

	2003/4 £'000	2004/5 £'000	2005/6 £'000	2006/7 £'000	2007/8 £'000	Total £'000
<b>Networks and services</b>		2,723	2,592	2,672	2,560	10,547
<b>Television</b>		2,578	2,454	2,530	2,423	9,985
<b>Radio</b>		403	383	395	379	1,560
<b>Other</b>	7,328	13,948	13,425			34,701
<b>Total</b>	7,328	19,652	18,854	5,597	5,362	56,793

## Annex 1

# Consultation questions

A1.1 We are seeking views from all of our stakeholders on the proposed work programme for 2008/09. In particular, it would be helpful if you could address the following questions:

*1. What are your views on the continued relevance of Ofcom's three-year strategic framework for its work in 2008/09?*

*2. What are your views on Ofcom's proposed policy work programme and top priority areas for 2008/09?*

*3. Are there new or additional areas in which Ofcom should consider reducing regulation and work to minimise administrative burdens? Please provide specific examples.*

*4. Are there additional areas of international policy development that Ofcom should be contributing to? Please provide specific examples.*

## Annex 2

# Responding to this consultation

## How to respond

- A2.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 19 February 2008**.
- A2.2 Ofcom strongly prefers to receive responses using the online web form at <http://www.ofcom.org.uk/consult/condocs/draftannplan0809/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response cover sheet is incorporated into the online web form questionnaire.
- A2.3 For larger consultation responses – particularly those with supporting charts, tables or other data – please email [kristina.glushkova@ofcom.org.uk](mailto:kristina.glushkova@ofcom.org.uk) attaching your response in Microsoft Word format, together with a consultation response cover sheet.
- A2.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Kristina Glushkova  
 Floor 6  
 Strategy and Market Developments  
 Riverside House  
 2A Southwark Bridge Road  
 London SE1 9HA
- Fax: 020 7981 3706
- A2.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A2.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together in Annex 1. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

## Further information

- A2.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Kristina Glushkova on 020 7981 3767.

## Confidentiality

- A2.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), ideally on receipt. If you think your response should be kept confidential, please specify what part or whether all of

your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A2.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A2.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

### Next steps

- A2.11 Following the end of the consultation period, Ofcom intends to publish a statement in April 2008.
- A2.12 Please note that you can register to receive free mail updates alerting you to the publication of relevant Ofcom documents. For more detail, please see: [http://www.ofcom.org.uk/static/subscribe/select\\_list.htm](http://www.ofcom.org.uk/static/subscribe/select_list.htm)

### Ofcom's consultation processes

- A2.13 Ofcom seeks to ensure that responding to a consultation is as easy as possible. For more information, please see our consultation principles in Annex 3.
- A2.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or email us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk). We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A2.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Vicki Nash, Director Scotland, who is Ofcom's consultation champion:

Vicki Nash  
Ofcom  
Sutherland House  
149 St. Vincent Street  
Glasgow G2 5NW

Tel: 0141 229 7401  
Fax: 0141 229 7433

Email [vicki.nash@ofcom.org.uk](mailto:vicki.nash@ofcom.org.uk)

## Annex 3

# Ofcom's consultation principles

A3.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

### Before the consultation

A3.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will usually hold an open meeting to explain our proposals shortly after announcing the consultation.

### During the consultation

A3.3 We will be clear about who we are consulting, why, on what questions and for how long.

A3.4 We will make the consultation document as short and simple as possible with a summary in plain English. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened plain English guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A3.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A3.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's Consultation Champion will also be the main person to contact with views on the way we run our consultations.

A3.7 If we are not able to follow one of these principles, we will explain why.

### After the consultation

A3.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

## Annex 4

# Consultation response cover sheet

- A4.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk).
- A4.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A4.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their cover sheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A4.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this cover sheet in Word or RTF format from the Consultations section of our website at [www.ofcom.org.uk/consult/](http://www.ofcom.org.uk/consult/).
- A4.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.



**Cover sheet for response to an Ofcom consultation**

**BASIC DETAILS**

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

**CONFIDENTIALITY**

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

**DECLARATION**

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard email text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)