Section Two

Executive summary

2.1 In order to meet the challenges of convergence, Ofcom's Draft Annual Plan 2007/8 sets out a three-year strategic policy framework and describes our proposed policy priorities for 2007/8. We also describe the important services which we deliver to stakeholders, and how we plan to improve them.

2.2 Our aim is to ensure that regulation encourages convergence, and that citizens and consumers enjoy the benefits. By convergence, we mean the ability of consumers to obtain more services on a single platform or device – or obtain any given service on multiple platforms and devices.

Changes in the communications sector

2.3 We believe that six significant changes are happening in the communications sector and contributing to convergence:

- **Wireless platforms and services are of increasing importance**

  Many of the new ways of communicating which have emerged in the last five years have been wireless-based, driven by the high value which consumers place on mobility. Another important factor is that technological advances have made mobile devices more user-friendly. Wireless platforms and services are likely to continue to be the main focus for innovation, with the development of wireless technologies benefiting from global economies of scale.

  Ofcom has an important role in regulating the radio spectrum which is used to provide wireless services. In our Spectrum Framework Review, we set out our plans to release more spectrum to the market, liberalise the use of spectrum and enable spectrum trading.

- **There is greater competition between platforms**

  The number of platforms for communications services is increasing, partly as a result of the emergence of new wireless platforms. Similar sets of services are now available on different platforms, leading to greater competition. The result of this convergence is increased choice for consumers. They can obtain more services on a single platform, or obtain any given service on multiple platforms. For example, broadband internet access can be obtained via cable, fixed wireless, or a fixed or mobile phone line.

- **Traditional suppliers are facing increased competitive pressure**

  Suppliers who have traditionally held a strong market position are being increasingly challenged. This is true of both telecoms and broadcasting.

  Increased competition reflects, in part, the success of regulation and technological change is also an important factor. For example, the broadband market is becoming increasingly competitive as regulation helps enable significant new players to enter the market and offer innovative services, often bundling broadband with other services such as fixed and mobile voice calls.

However, this increased competition is also contributing to the fact that some of the ways in which public outcomes have been achieved in the past are being challenged. By public outcomes we mean outcomes which society wants, but which the market alone will not deliver, including, for example, universal access to the telephone and the provision of public service broadcasting.

- **Attitudes to communications services are changing**

  Communications services are increasingly central to people's lives. But consumers display different attitudes to services, and use them in different ways.

  What society expects of regulation is also likely to change. There may be a greater role for self-regulation, allowing us to remove formal regulation in some areas. In particular, as more people gain the tools and knowledge to control access to content, society may decide that less formal regulation is needed to protect audiences from harm and offence caused by different forms of content.

- **Services and technologies are becoming more complex**

  Communications services are continuing to grow more complex, as well as changing at a faster rate. In the past, only a few services were available – telephone, TV and radio – and there was a limited choice of supplier. There are now a huge number of suppliers, numerous services to choose from and services themselves are more complex. Consumers are also grappling with new technology.

  This increased complexity means:

  - it is harder for consumers to make well-informed comparisons between services;
  - the process of switching from one service to another can become more complicated, particularly when services are bundled;
  - there may be an increasing number of scams or other practices which exploit consumers' unfamiliarity with new services; and
  - consumers may become increasingly concerned about how to protect themselves against harmful or offensive content online.

  Equally, technology is enabling people to exert greater control over the content they view, and is also making services more accessible. It will be important for people to develop an improved set of skills and understanding, including media literacy, so that they have the ability to benefit fully from the services available to them. We refer to this as communications capability.

- **Traditional business models are being challenged**

  There are increasing challenges to traditional business models. Many platform operators have enjoyed two decades of growth, but a large number of the most successful new business models of the last five years have not involved platform ownership. Instead, many have focused on providing services or supplying content, and have not required the kind of significant capital expenditure involved in operating a platform.

However, many new, innovative services depend for their development on platform operators making substantial investments in their networks. The challenge is to fund these platform upgrades when traditional business models are threatened by increased competition. Convergence is also creating the possibility that new sources of market power may emerge in areas such as navigation or digital rights management.

2.4 These changes are all shaping how communications markets evolve and converge. We consider them in more detail in Section Four and in Section Five we set out the three-year strategic policy framework which we have developed in response.

Policy priorities for 2007/8

2.5 We have also identified particular policy priorities for 2007/8. These priorities are set out in figure 2.1 and are organised under the headings of our three-year strategic framework. They are a mixture of new and ongoing areas and are explained in more detail below:

Figure 2.1: Policy priorities for 2007/8

	Driving forward a market-based approach to spectrum	Promoting competition and innovation in converging markets	Delivering public outcomes as platforms and services converge	Improving compliance and empowering consumers	Moving towards more consistent legal and economic frameworks
New priorities	Driving forward spectrum liberalisation and trading	Understanding wireless platforms as convergence progresses Assessing new sources of market power that emerge through convergence	Reviewing how we protect viewers and listeners through content regulation Promoting access and inclusion	Promoting improved communications capability, including media literacy Making enforcement more targeted and effective	We will focus on this area in the second and third years of our strategic framework, but will begin preparatory work in 2007/8 as resources allow
Ongoing priorities	Releasing more spectrum to allow new services to develop Co-ordinating international spectrum policy	Promoting competition in converging markets Securing competition & efficient investment in next generation networks	Maintaining diverse and high-quality content in public service broadcasting	Ensuring consumers can switch providers quickly and easily	
	Reducing regulation and minimising administrative burdens				
	Maximising our impact on International policy development				

Driving forward a market-based approach to spectrum

2.6 As part of our work to implement a more market-based approach to spectrum management, as set out in our Spectrum Framework Review, we will focus on the following areas during 2007/8:

- **Driving forward spectrum liberalisation and trading**

  A priority for 2007/8 will be to examine how we can accelerate the development of a secondary market in spectrum by driving forward the process of spectrum liberalisation and facilitating spectrum trading. By allowing the market to decide how spectrum should be used, this will foster increased competition and innovation, and will mean that the regulator has a diminished role in spectrum management. Another important benefit will be reduced administrative burdens on spectrum users.

- **Releasing more spectrum to allow new services to develop**

  Carrying out our programme of spectrum awards will be a continuing priority. Making more spectrum available to the market will be critical in enabling the development of platforms for the next generation of converged services.

- **Co-ordinating international spectrum policy**

  Effective co-ordination internationally will continue to be a priority for 2007/8. We will represent the UK on the key international bodies concerned with spectrum management and will seek to achieve an international approach which helps us to secure optimal use of spectrum in the UK. In particular, we will represent the UK at the World Radio Conference 2007 and in the ITU, European Conference of Postal and Telecommunications Administrations (CEPT) and the EU.

Promoting competition and innovation in converging markets

2.7 Creating the conditions for competition and innovation in the light of the pressures faced by platform operators will involve work in the following areas during 2007/8:

- **Promoting competition in converging markets**

  We will continue to promote competition in converging telecoms and broadcasting markets. Central to this in the telecoms sector will be the need to ensure that BT Group plc complies with its Undertakings to give competitors equivalent access to the wholesale products they need in order to provide services to consumers. This will lead to greater competition in a range of markets, with consumers (including small businesses) benefiting from lower prices and increased choice as a result. We will also continue our work to promote increased competition in broadcasting markets. There will be a range of initiatives to ensure TV broadcasters have access to the platforms they need in order to compete fairly for viewers.

- **Securing competition and efficient investment in next generation networks**

  A continuing priority will be to ensure that as operators make the transition to next generation networks (NGNs), the conditions are in place to promote effective competition and efficient investment by both incumbent operators and new entrants. This will involve modifying the regulatory regime for fixed telecoms networks in the light of the development of NGNs. We will also develop our approach to next generation access to ensure that the upgrading of fixed access networks enables consumers to receive timely access to new innovative services.

- **Understanding wireless platforms as convergence progresses**

  A new priority will be to take a more strategic view of the development of certain wireless platforms. In the past we have adopted a strategic approach to regulating various fixed markets. In a world where platforms are becoming increasingly interchangeable, we plan to develop a more strategic view of new wireless platforms such as mobile TV and wireless broadband, assessing how they will contribute to further convergence.

- **Assessing new sources of market power that emerge through convergence**

  Another new priority will be to develop our approach to the new sources of market power which may emerge through convergence at different points in the value chain. In considering the case for regulating (or de-regulating) at any one point in the value chain, we will need to consider carefully what could happen elsewhere. This will help us to avoid the risk of regulation distorting the way that markets are developing.

Delivering public outcomes as platforms and services converge

2.8 The task of considering how public outcomes are currently achieved in the communications sector, and whether this will be sustainable in the future, will involve work in the following areas during 2007/8:

- **Reviewing how we protect viewers and listeners through content regulation**

  A new priority will be to review our approach to the rules which restrict what can be shown on TV and radio, including those which protect viewers and listeners against harm and offence. We will focus on how regulation should evolve, considering the extent to which we should maintain the differences between how content is regulated, depending on the platform over which it is delivered. As part of this debate, we will consider the extent to which there ought to be a shift towards self-regulation, and how quickly it would be feasible for this to happen. This area of work is closely linked to the need to promote increased communications capability, including media literacy. We describe our planned activity in this area below.

- **Promoting access and inclusion**

  This programme of work will continue to be a priority for Ofcom. We will carry out research to understand better the nature of concerns about access and inclusion. At the same time, we will consider what services we can expect the market to provide without regulation, and their availability, accessibility and take-up.

  Ofcom has an important role in facilitating increased access and inclusion, working closely with stakeholders and other public bodies. More broadly, we will need to take account of the potential impact of our policy decisions on the full range of our stakeholders, including vulnerable groups and people living in remote and rural areas.

- **Maintaining diverse and high-quality content in public service broadcasting**

  Reviewing the ways of achieving a range of high-quality programmes on TV and radio will be a continuing priority in 2007/8. The existing approach to maintaining public service broadcasting may become unsustainable, particularly following digital TV switchover. Similarly, the market may be able to deliver, at least in part, public outcomes that previously could only be achieved through intervention.

Improving compliance and empowering consumers

2.9 The increased complexity of communications services, and the scope for consumers to be exploited, means that we will need to focus on improving compliance by the businesses we regulate, and on empowering consumers. This will involve work in these areas in 2007/8:

- **Making enforcement more targeted and effective**

  A new priority for 2007/8 will be to take a more targeted and effective approach to enforcing the rules designed to protect citizens and consumers. This will mean identifying the scams or practices which have the scope to cause most harm to people, and taking action to stop them before they have a widespread impact. We will also promote improved compliance with the rules that protect consumers, for example, from mis-selling, and the rules that prevent anti-competitive behaviour.

- **Ensuring consumers can switch providers quickly and easily**

  A continuing priority will be to ensure the effectiveness of the processes which are necessary to allow consumers to switch suppliers quickly and easily. This will enable consumers to benefit from the increased choice and lower prices produced by competition between suppliers.

- **Promoting communications capability, including media literacy**

  Another new priority will be to increase substantially our focus on improving people's communications capability, particularly among vulnerable groups and for parents who want to protect their children. An important part of this is media literacy, which is vital in enabling people to protect themselves from harmful content. To maximise our impact, we will be reviewing how we engage with other organisations that have a role in this area, including government.

Ensuring consistent legal and economic frameworks

2.10 It will be important, as part of our three-year strategic framework, to examine where it is desirable to move towards greater consistency between the legal and economic frameworks which govern different platforms. We will focus on this issue during the second and third years covered by our strategic framework, although we will begin preparatory work during 2007/8 as resources allow. For example, we plan to review our experience of applying the Communications Act to inform a longer-term debate about future legislation.

Reducing regulation and minimising administrative burdens

2.11 In addressing all our policy priorities – both new and ongoing – we will examine the scope for removing regulation and lessening the administrative burdens on our stakeholders. In some areas, such as spectrum liberalisation, we are proposing to make further significant reductions in regulation and administrative burdens. In other areas new rules may be needed, although, in line with our regulatory principles, we will seek the least intrusive mechanisms available.

Maximising our impact on international policy development

2.12 Another cross-cutting area of activity will be to maximise our impact on international policy development. This will include participating in EU negotiations by completing negotiations on the Audio-Visual and Media Services Directive; and providing significant input to negotiations on the EU Framework Directive Review and the follow-on review of the Universal Service Directive.

2.13 We will also have a programme of pro-active engagement that will include:

- promoting the development of the European Regulators Group and greater co-operation among EU content regulators; and

- engaging with the European Conference of Postal and Telecommunications Administrations (CEPT) and the International Telecommunications Union (ITU) in the run-up to the World Radio Conference.

2.14 In Section Six we describe our policy priorities in more detail and highlight the key projects which relate to each. In the final version of the Annual Plan 2007/8, which will be published in early April 2007, we will provide comprehensive details of our work programme for next year, including expected outputs and contact details for the person accountable for each project.

Delivering services to stakeholders

2.15 Of equal importance to our policy work is the task of delivering a wide range of high-quality services to our stakeholders; on an average day, we provide a service to some 2,500 of them.

2.16 As part of our service delivery work, we:

- deal with enquiries and complaints from citizens and consumers about telecommunications services, broadcast TV and radio services, and the use of the radio spectrum;

- allocate telephone number ranges to communications service providers, who then allocate individual numbers to their customers;

- license access to the radio spectrum by issuing, renewing and revoking licences, where necessary making frequency assignments, performing site clearances and co-ordinating this work internationally;

- keep the radio spectrum free from interference by monitoring the radio spectrum and taking action against accidental or deliberate misuse (including illegal broadcasting), and act to prevent non-compliant radio equipment reaching the UK market;

- provide the information services which underpin the delivery of services to stakeholders, such as enabling the move towards increasing online access;

- publish detailed reports on the communications market and changing consumer attitudes;

- provide, via our website, information to consumers and enable them to submit complaints; and

- publish hundreds of consultation documents every year so that stakeholders can contribute to the policy development process.

2.17 The services we deliver, and the improvements we are planning to make, are described more fully in Section Seven.

Ensuring value for money

2.18 During 2007/8 we will maintain our commitment to providing stakeholders with value for money. In our first three years we have made significant efficiency savings which have enabled us progressively to reduce our budget.

2.19 We are currently discussing with HM Treasury what our spending caps should be for the next four years. Until these discussions have concluded, we will not be able to set our budget for 2007/8, and the extent to which we can carry out our planned programme of work may be affected by the outcome. However, we intend to maintain the same quality of output, both in terms of making policy decisions and delivering services to stakeholders. In order to do so, and still provide value for money, we will need to achieve further efficiency savings. Details of how we plan to make these savings are included in Section Eight.

2.20 By the end of 2007/8, we will have repaid the loan made by the Department of Trade and Industry (DTI) to set up Ofcom, and made substantial improvements to our efficiency. The end of 2007/8 will therefore be a watershed: Ofcom will be an established organisation and will be likely to have more stable funding requirements.