

Chairman's Message



David Currie

Britain's citizens and consumers have taken to the current generation of digital communications services in ever greater numbers.

Nine in ten households in the nations and regions of the UK now have digital television. A majority of households have broadband connections with increasing speeds, falling prices and more widespread availability than any other major developed economy. The deployment of Edge, Wi-Fi and 3G mobile have fuelled the explosive growth of mobile broadband. Over the past year Ofcom has continued to oversee and support the competitive marketplace that brings these benefits.

But we have also begun to look ahead to the next generation of digital services: very high speed broadband for residential and business consumers, high definition digital television and new wireless services.

Next generation broadband

Ofcom has been addressing the issues involved in regulating to assist competitive investment in next generation broadband. The commercial decision to invest will be determined by many factors. We are therefore working closely with the Government's review led by Francesco Caio to address all the supply-side issues in the round.

High definition TV

High definition television via satellite and more recently via cable is the product purely of commercial investment and innovation. Digital terrestrial television (DTT), however, is constrained by the amount of spectrum available. And, well into the year just passed, many experts were still arguing that high

definition television could not be accommodated within the spectrum currently available. However, the solution which Ofcom put forward has now received widespread acceptance and will allow three slots suitable for high definition channels from next year and a fourth in 2012. The BBC Trust will be overseeing the launch of the BBC's high definition service on DTT and Ofcom will conduct the selection process for the other slots. When this process is concluded viewers will have a wider choice, without having to wait on the possibility of new nation-wide spectrum becoming available after digital television switchover.

Public Service Broadcasting

An area where Government and Parliament will play a pivotal role is in the follow-up to Ofcom's second statutory review of public service broadcasting. The accelerating pace of change in household viewing and the economics of broadcasting means that the current model of public

Chairman's Message

service broadcasting, combining the BBC with commercial broadcasters to give viewers plurality, will not survive the full transition to digital and that a new model will be needed; one that also takes advantage of the opportunities offered by convergence to meet public purposes in new ways. The traditional regulatory levers have decreasing purchase. Ofcom's role will therefore primarily be to lay out detailed evidence, the options and their consequences. It will then be for the Government and Parliament to determine the model that will best serve citizens' interests.

Radio spectrum

In spectrum there is already much in the civil sphere that can be liberalised and brought into wider market use. Over the last year Ofcom has made a start on what will be the greatest set of spectrum releases in the UK's history, creating scope for many new wireless services and bringing social and economic benefit. But traditionally about half of the available and readily usable spectrum has been reserved for military and other public sector uses. The review of this spectrum last year has created greater opportunities for more of it to be brought into wider use and sharper incentives to do so. The Ministry of Defence now plans to release a significant proportion of its spectrum holdings and to consult on how.

International

International developments play an increasing role in the way we regulate. During 2007/8 agreement was reached within the European Union on the Audio-Visual Media Services Directive, which sets the framework for cross-European content regulation; a framework

that, with its emphasis on empowering viewers, media literacy and accredited self-regulation, meets the objectives with which Ofcom and the Government entered the European negotiations.

We are now similarly engaged with the revision of the framework set of directives on communications networks and services. I am pleased that the Commission has taken up, as one possible remedy available to national regulators, functional separation of the enduring monopoly parts of an incumbent's business from the rest, where greater deregulation is then possible.

We live in an increasingly interdependent age and some decisions can only practicably be taken at European level. International roaming charges for mobile phones is one such issue. I welcome the part that the European Regulators' Group, of which Ofcom is a leading member, played in developing the Commission's original proposal to produce regulation which is both workable across Europe and brings real benefits for consumers in lower prices for international voice calls.

In carrying out its wide-ranging work, Ofcom receives invaluable assistance and advice from a number of Boards and committees. First and foremost, of course, is the Content Board which, in addition to the advice they have given to the Ofcom Board, has taken a number of significant decisions on Broadcasting Code issues and has overseen the development of robust viewer protection measures over the use of premium rate telephone services in broadcast programmes. In addition to the Content Board, the Ofcom Spectrum Advisory Board, the National Advisory Committees and the Advisory Committee on Older and Disabled

People have all given generously of their time and advice; and I and my colleagues on the Ofcom Board are very grateful for that.

The independent Ofcom Consumer Panel acts as a strategic conscience for Ofcom to ensure that the consumer interest remains front and centre to Ofcom's thinking. It has done so very effectively under the chairmanship of Colette Bowe who, during 2007/8, came across to join the main Ofcom Board. Her successor, Anna Bradley, is an equally determined and thoughtful champion of the consumer interest.

Alongside the arrival of Colette Bowe, there have been a number of other changes this year to the composition of the Ofcom Board. Sara Nathan, a founder member of the Board and former deputy chairman of the Content Board retired from the Board on 31 December 2007. Stephanie Liston stood down from the Board at the end of March 2008. And shortly after the end of this reporting year Ian Hargreaves, who has been on the Board since 2002, first as a non-executive director and latterly in an executive capacity, departed to join the Foreign and Commonwealth Office as its Director of Strategic Communications. Mike McTighe, Chairman of Pace, Colette Bowe and Tim Gardam all joined the Board during the year, bringing a high level of experience and expertise in commercial, technical, consumer and broadcasting issues to the Board. To them and to my other colleagues on the Board my thanks for their help and wisdom over the past year.

David Currie
Chairman

Chief Executive's Report



Ed Richards

The interests of citizens and consumers are at the heart of everything we do at Ofcom.

Whether it is technical spectrum policy or a decision concerning the Broadcasting Code, all of our work is driven by seeking to meet the interests of the UK's citizens and consumers.

In what is now a £50bn market, promoting competition and protecting the citizens interest has delivered tangible benefits – lower prices, greater choice, new services and the introduction of innovative technologies. In the future we face major new challenges with next generation networks and digital convergence affecting so much of what we do.

Citizens and consumers are already reaping the benefits of competition.

Over half of all households have broadband from one of more than 500 different providers. There are 22 million UK households with digital television, whether it is terrestrial through their aerials, satellite or cable. Today, there are more mobile phones than there are people in the UK, with services offered by five network operators and many more retail-only providers. And one in five adults now owns a digital radio set, offering listeners a choice of up to 60 stations.

In last year's report I talked about how convergence had begun to come of age, with consumers being able to buy a bundle of different services from a single provider.

Our research this year has highlighted how convergence is benefiting people, with the UK having some of the lowest average prices of communications services and bundled products offering significant discounts for consumers.

Promoting competition

There is far more that can be done and over the last year we have taken a range of further steps to promote competition.

We have laid the foundations to enable viewers to receive high definition channels on digital terrestrial television, starting in the Granada region next year. This will mean that consumers will be able to choose between terrestrial, cable and satellite television to watch the ultra-clear pictures offered on HD.

We released new radio spectrum to the market, including the frequencies known as the L-Band, with a larger amount planned for release over the next two years. In particular, we plan to release the highly sought-after spectrum that will be freed-up through the switch to all-digital television in the UK. This spectrum, and other bands we will release over the next few years, will further enrich competition in the provision of the wireless services that people are today demanding.

Chief Executive's Report

We have continued work on a significant project to promote investment in the next generation of super-fast broadband networks, while promoting and sustaining competition in the telecoms sector. At the same time we have continued to promote competition through the Undertakings by giving BT's competitors equivalent access to the wholesale products they need to provide services to end-users.

And we have reshaped the regulation of the radio sector, to help commercial radio and smaller stations remain competitive.

Section B of this Report highlights further projects we undertook in 2007/8 to promote competition.

Securing the public interest

We recognise that the market is not perfect – this is why regulators exist. Take public service broadcasting (PSB), for example. We believe that there are many very good programmes made by purely commercial broadcasters; programmes that are made in the UK, that reflect the culture and diversity of the UK and help to inform us about the world in which we live. We also recognise that the market alone will not provide enough of this type of programming and our review of PSB, which we began in 2007/8, will consider this issue.

Empowering consumers

We have also proposed new guidance to require communications providers to disclose the true cost of their services and to make sure that any additional charges on consumers' bills reflect the providers' direct costs.

In broadcasting, the year was dominated by the issue of trust, following what our Content Board

member Richard Ayre identified in a report as a "systemic failure" in the responsible use of premium rate telephone services by broadcasters.

During the year we moved to restore trust by introducing a series of new regulations to make broadcasters directly responsible for consumer protection, particularly in relation to the use of premium rate telephone services. We took enforcement action against a number of broadcasters for breaching that trust and imposed the biggest fines in broadcasting history.

In our investigations into broadcasting standards, we issued sanctions against television and radio companies who had breached our Broadcasting Code, which is designed to protect consumers. The most high profile was our sanction against Channel 4 over *Celebrity Big Brother*, which we felt was mishandled by the broadcaster.

During 2007/8 we also defended challenging programmes that were, in our view, in the public interest. One example was our ruling on Channel 4's *Dispatches* programme, *Undercover Mosque*. We found that there was no evidence that this programme had misled viewers and that in fact it was well-produced journalism that served the public interest.

With competition comes risk; in particular, the risk of companies engaging in overzealous or sometimes unacceptable practices to win or retain customers. In 2007/8 we significantly increased our efforts to protect consumers and empower them to take full advantage of competition.

In mobile telecoms, we published a proposed new mandatory code of practice to stamp out misleading sales and marketing practices. This

followed a warning that if the sector didn't clean up its act then we would issue tough new regulations.

We have made it easier for people to switch mobile phone provider, with the mobile telephone number transfer process (known as 'porting') cut from five days to two, with plans to bring this down to two hours next year.

In fixed-line telecoms, we have extended new rules to prevent 'slamming', when a customer's telephone account is moved to another provider without their apparent consent. To ensure that the rules are being adhered to we launched a widespread investigation into slamming and have taken enforcement action against a number of companies that have engaged in this practice.

Section B of this Report outlines further projects where we have improved compliance and empowered citizens and consumers.

Ofcom: more efficient at a lower cost

Ofcom is predominantly funded by the companies that it regulates. We receive payments from broadcasting licensees and communications providers, as well as payments for the management of the UK radio spectrum. Because our operating costs are a net cost to our stakeholders, we are committed to improving our own efficiency.

On a like-for-like basis our budget for 2007/8 was £130.2m, lower in real terms than the budget for the previous year. In addition, our outturn for the year was £200,000 below budget and this sum will be remitted back to stakeholders in the form of lower regulatory fees.

To cover the cost of establishing the organisation Ofcom received a

Chief Executive's Report

£52.3m loan from the Government. During the financial year we completed the repayment of the loan, together with the accumulated interest. Therefore, from 2008/9 onwards the loan will no longer be recouped through regulatory fees from stakeholders.

We are maintaining our focus on reducing costs. Our budget for 2008/9 is £133.7m, this is 1.5 per cent lower in real terms than the previous year's budget and 17.5 per cent lower in real terms than our original full-year budget set in 2004/5.

The reduction in our operating budget is driven by a consistent desire to improve our operational efficiency. On 31 March 2008, Ofcom's headcount was 812; this compares with 1,152 which was the combined actual headcount of the five organisations we replaced.

When Ofcom was created we inherited a variety of different information and telecoms systems. We are now part-way through a programme to integrate the IS systems, which are used in areas as diverse as licensing, field operations and human resources. During 2007/8 we made further progress in creating a single IS system operating across the organisation.

Further details of the IS project plus finances can be found in Section C, with the full accounts in Section E of this Report.

As well as being committed to reducing our financial burdens on our stakeholders we are also committed to reducing our regulatory ones. Sections B and C

'CITIZENS AND CONSUMERS ARE REAPING THE BENEFITS OF COMPETITION'

of this Report highlight some of the areas where we have achieved this through deregulation and simplification. This is an important area of our work which we take very seriously. We always seek to take opportunities to reduce or simplify regulations that are consistent with meeting our other duties and we are always interested in hearing ideas from stakeholders on how we can achieve this.

Outlook: the year ahead

This is another very significant year for Ofcom. It promises major developments across the communications sector, in which Ofcom has an important role to play.

We set out our work for the coming year in our Annual Plan, published in April 2008.

In spectrum, we plan to release rights to use radio frequencies at 2.6 GHz. This spectrum has been identified for a wide range of different uses, including wireless broadband, such as the new technology known as WiMAX.

We will also conduct further work on the release of the most valuable radio spectrum that will be freed-up through the switch to digital television – the Digital Dividend. This will be released in 2009. Related to this, we will invite public service broadcasters to submit applications to use the additional

capacity on digital terrestrial television that we are creating for new services such as high definition TV.

In television broadcasting, we will refine our proposals to sustain and develop public service broadcasting in the UK. We started a public debate on this shortly after the period under review with the publication of a consultation, which set out a number of future options for PSB. We will develop these proposals in autumn 2008 with a second consultation. We will also continue our investigation into the pay-television market with a second consultation due to be published later in the year.

In radio, we will implement a new regime for the regulation of analogue commercial radio stations' formats. We will also contribute fully to the cross-industry Digital Radio Working Group, which is examining the future digital options for radio broadcasters.

In telecoms, we will continue our work to promote efficient and timely investment in super-fast fibre optic telecoms networks, while encouraging and sustaining competition. In doing so, we will work closely with Francesco Caio, who is undertaking a separate review of next generation access for the Government, considering matters that fall largely outside Ofcom's remit.

Chief Executive's Report

We will continue to ensure that BT Group complies with its Undertakings – giving its competitors equivalent access to the wholesale products they need to provide services to consumers. One of the outcomes of the Undertakings was the creation of Openreach, an operationally separate business responsible for local access and backhaul telecoms network. In 2008/9 we will publish a consultation on Openreach's financial framework to take account of changes in the market.

In the area of consumer policy, we aim to introduce a code to address the differences between headline advertised broadband speeds and the actual speeds that customers receive. We will also finalise our new rules and guidance on the mis-selling of mobile services and additional charges on consumers' bills.

We will continue to take enforcement action against companies that do not compete fairly and we will ensure that all communications providers are members of a dispute resolution scheme to deal with customer complaints.

David Currie's Chairman's Message highlights some of the important work we have undertaken internationally during the financial year. In 2008/9 we will work with the Government to ensure that the interests of UK citizens and consumers are fully represented in the European Commission's review of the European framework for electronic communications.

Ed Richards
Chief Executive