



Annual Plan 2008/09

Statement

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Foreword

Ofcom was created largely in anticipation of convergence. Convergence has seen many false dawns, but four years after Ofcom's creation we can say assuredly that it is now a reality.

Convergence is affecting all aspects of our daily lives. It affects the way we go about our personal lives, how we participate in society as citizens and how we act as consumers. It is bringing great advantages to all of us through increased choice, innovation, convenience and lower prices driven by increased competition.

Convergence is also bringing sweeping changes to the structures of our communications markets, fuelling new patterns of demand and changing traditional business models. It means both new opportunities for businesses and new challenges as historic market boundaries are eroded. As a regulator, we will continue considering the needs of all businesses, large and small, to ensure that the regulatory environment supports the communications requirements of all UK companies as well as individuals and households.

As convergence reshapes communications markets it will also begin to change regulatory practice. As this takes place, Ofcom will continue to focus resolutely on ensuring we meet our central duties of furthering the interests of citizens and consumers in relation to communications markets.

For citizens, there are many benefits from the changes that we are seeing. As citizens we are becoming part of a more connected, more networked society that enables us to interact and to access information and services in new and innovative ways.

But there are challenges for us as citizens too. For example, we have to reconsider how we deliver certain critical public interest objectives as existing approaches are challenged by the changing environment. In particular, we need to consider how we continue to fulfil our public interest objectives in the areas of public service broadcasting and radio and begin to consider broader concerns about access and the availability of different networks and services.

For consumers, there are also significant benefits driven by convergence. We are enjoying lower prices, more choice between suppliers and a wide range of products and services than ever before. Today we have more personal control over our media than ever before, more mobility and the ability to participate in our media experience as never before.

At the same time, there are different challenges for consumers. Convergence, alongside more intense competition, can lead to complexity and varying degrees of confusion and anxiety. We need to ensure that people are both protected and able to protect themselves and their families so that they are able to enjoy fully the benefits of convergence. However, there will continue to be a role for Ofcom to intervene decisively to protect people from actual or potential harm whenever this proves necessary.

To make sure we are prepared to meet these challenges, Ofcom developed a three-year strategic framework last year. The aim of the framework is to guide our work until 2010, and to deliver on our objective of regulating *for* convergence to ensure that everyone can benefit from convergence. As part of our annual planning process this

year, we have assessed key market developments to ensure that our strategic framework remains appropriate, and to develop a work programme that reflects, and responds to, these developments. This has also enabled us to determine our top priorities for this coming year.

We remain committed to our goal of delivering maximum value for money to our stakeholders. Over the past years, Ofcom has already made significant efficiency gains, and we have planned new initiatives in this area. Despite the growing demands placed on regulation by convergence, we have again been able to make a real terms budgetary reduction.

Our budget for 2008/09 is set at £133.7m, a further budget reduction of 1.5% in real terms. We have also now finished repaying the loan we received from the Government to set up Ofcom, and no further contributions will be required from stakeholders from 2008/09.

As a result of the restructuring following the creation of Ofcom, the costs of regulation over the past four years have been appreciably lower than they would otherwise have been on any plausible scenario, even allowing for the costs of the loan which facilitated this restructuring. This will be our fourth consecutive year of real terms budget reduction.

Our work plan reflects wide-ranging input from stakeholders. In developing our proposals, we sought early input from all of Ofcom's advisory bodies to reflect the needs of all parts of the UK society. In finalising our plans, we have taken into account the diverse range of responses to the consultation on the Draft Annual Plan, and feedback received during public events in Glasgow, Dundee, Belfast, Cardiff, Caernarfon, and London. We are pleased that the consultation responses were largely supportive of our proposed work programme and priorities, and made a number of useful comments, which we hope are reflected in this final annual plan.

We would like to thank all of our stakeholders for contributing to the development of the Annual Plan. We are looking forward to working with all of you to implement our work plan in what is likely to be another year of rapid change, bringing further opportunities and raising questions for all of us in the communications sector.

David Currie
Chairman

Ed Richards
Chief Executive

Section 1

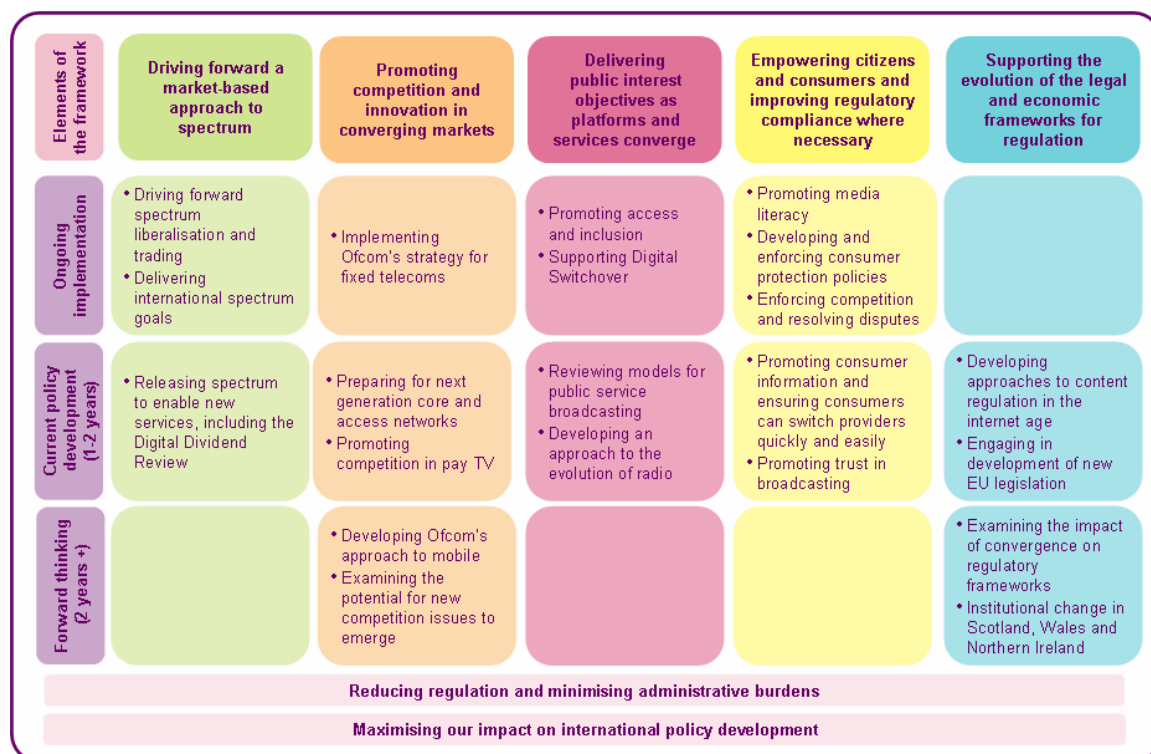
Executive summary

- 1.1 Convergence has long been anticipated by many in the communications sector - the changes we are now seeing suggest that it is fast becoming a reality. The potential implications of these changes for citizens and consumers will be significant. We have started the process of digital switchover in the UK. We have seen new services such as social networking increase in popularity faster than anyone expected. We have the emergence of more converged services and businesses.
- 1.2 In the light of these developments, we outlined in last year's annual plan that Ofcom would seek to regulate *for* convergence. To achieve this, we developed a three-year strategic framework, focusing 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.
- 1.3 These five main elements are supported by two 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 represent the interests of UK citizens and consumers.
- 1.4 A number of key developments occurred in the communications sector during the past year, suggesting that convergence is accelerating. These include:
- a changing mix of media consumption, and new ways of engaging with communications services by different consumer groups;
 - the growing popularity of bundled and converged products among consumers;
 - 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;
 - growing innovation in services and increasing use of these services by individual consumers and business users; and
 - the continued risk of new competition issues emerging from new forms of market power.
- 1.5 We are now approaching year two of our three-year framework. Based on our analysis of market trends and stakeholders' responses to our consultation, we

believe this framework continues to be relevant to our aim of regulating *for* convergence.

- 1.6 Within this framework we have developed a wide-ranging work programme that reflects key recent developments in the communications sector. Our work programme consists of 21 major work areas. This includes projects in an ongoing implementation stage, areas of current policy development and horizon-scanning activities that look further ahead.

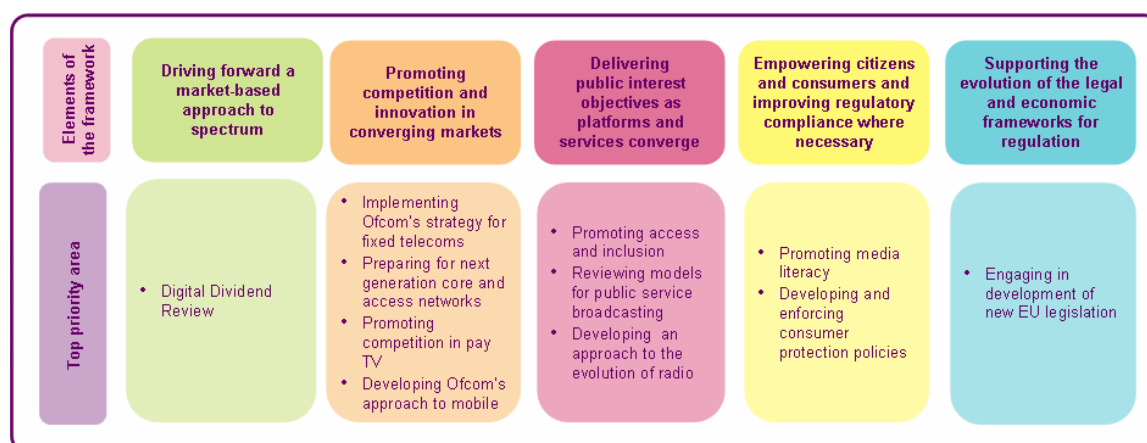
Figure 1: Major policy work areas in 2008/09



- 1.7 Within this work programme, we have identified a number of top priorities. These are the areas where progress is vital in 2008/09 to ensure that Ofcom fulfils its longer-term aim of maximising the benefits of convergence for citizens and consumers across the UK. These are work areas 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.

- 1.8 Although we identify these as top priorities, this does not mean that other major areas of policy work planned for 2008/09 are not also important. All of our planned activities remain necessary to delivering on our statutory duties towards citizens and consumers. We will work 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



- 1.9 The fast pace of change in the communications sector means that there will often be unexpected issues arising during the year. To ensure that Ofcom has sufficient resource to address such issues without compromising ongoing work, we have reserved a share of internal capacity for unplanned tasks in 2008/09.
- 1.10 In addition to our policy work, Ofcom delivers a range of important services to stakeholders. These include: keeping spectrum free from interference; allocating number ranges; providing information and analysis to the market, for example our annual Communications Market Reports. Stakeholders identify these as valuable services and we will work to continue to enhance their delivery.
- 1.11 In delivering our policy work programme and services, we remain committed to maximising our efficiency to deliver 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. We have set our budget for 2008/09 at £133.7m, representing a 1.5% reduction in real terms compared with last year's budget. This is the fourth consecutive real terms reduction in Ofcom's budget.
- 1.12 Consultation responses to our Draft Annual Plan were broadly supportive of our work programme. Stakeholders generally agreed that our three-year framework remains relevant, and that the identified top priority areas for 2008/09 were the right ones.
- 1.13 A number of specific questions about Ofcom's approach to planning and prioritisation were raised. We have taken these comments on board and adjusted the final annual plan to reflect this feedback. In addition, consultation responses contained many useful comments and suggestions on specific policy issues. Annex 1 summarises Ofcom's responses to consultation feedback.

Section 2

Ofcom's strategic approach

Ofcom's approach to regulation

- 2.1 In the environment of ongoing rapid change it is important that Ofcom has a clear approach to fulfilling its regulatory remit and its duties towards citizens and consumers. To achieve this, we outlined a number of principles on how we would develop and implement regulation.
- 2.2 The regulatory principles serve as guide in all of our work, to ensure that we address policy issues effectively, and in a timely and comprehensive manner. They also help to provide clarity to stakeholders on how we operate and how we will approach specific policy issues.

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.

- 2.3 Ofcom operates with a bias against intervention, to minimise the risk of unintended consequences arising from regulation. Such consequences can distort or stifle the development of competitive markets. However, where intervention is required we will aim to intervene quickly and decisively. For example, the emergence of new services can create an increased risk that consumers will fall victim to scams, or abusive business practices. Ofcom has a vital role to play in preventing such activities to protect consumers, and to enable them to enjoy the benefits brought by new services.

- 2.4 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 in local loop unbundling (LLU). Referring such issues to the Telecoms Adjudicator in the first instance has meant that problems with the implementation of LLU could be dealt with in a pragmatic and efficient way.
- 2.5 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 changing. Our commitment to evidence-based decision-making is supported by a comprehensive programme of research. We publish regular reports on market developments.
- 2.6 We also recognise the importance of consulting the full range of our stakeholders, both informally as policy options are being identified, and formally through the publication of consultation documents. In addition, impact assessments help ensure that we follow good practice when making policy decisions, identifying a range of policy options and analysing the impact each would have.
- 2.7 In the 2003 Act, 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 as a whole.
- 2.8 The nature of the citizenship issues can involve complex value judgements. Often, therefore, citizen issues falling within Ofcom's remit will involve either (a) acting under an explicit mandate established in legislation by Parliament, or (b) Ofcom working closely with Government to ensure that the exercise of such complex value judgements is done in a way which is consistent with democratic accountability. Public service broadcasting, where Ofcom has very specific duties established in the Communications Act is an example of the former, and universal service for telecoms is an example of the latter, given that Ofcom advises on the scope and application of USO, but the final decision-making power rests with Government.
- 2.9 Sometimes, the interests of citizens may be at odds with the interests of some individual consumers. For example, promoting the availability of universally available telecoms services might involve going beyond what the market would deliver. Such intervention could be viewed as being in the interests of citizens: it could promote a more inclusive, interconnected society. It would also directly benefit those consumers who may not otherwise be able to receive certain telecoms services, such as those living in remote parts of the UK. However, such interventions generally come with a cost which, depending on the form of intervention, might mean that some of us would pay more for services than would otherwise have been the case.
- 2.10 Therefore, in making policy decisions, it is important to identify both the interests of citizens and the interests of consumers. We can then 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 necessarily be made available to everyone, and if they are, the prices may vary. 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.

- 2.11 It is also crucial to emphasise that our definition of consumers includes businesses as well as individual consumers. This means that regulation needs to foster a market environment that responds to the needs of small, medium and large enterprises in the UK. Many of our projects have tackled specific needs of companies. For example, our evaluation of the impact of the telecoms strategic review explicitly looked at the impact on business users, while the business connectivity market review focuses specifically on the business market. This very substantial piece of work affects the interest of thousands of companies across the UK.

Reflecting on Ofcom's strategic framework

- 2.12 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. We believe that Ofcom's role is to regulate *for* convergence and to ensure that the benefits of convergence are maximised for all citizens and consumers, throughout the UK.

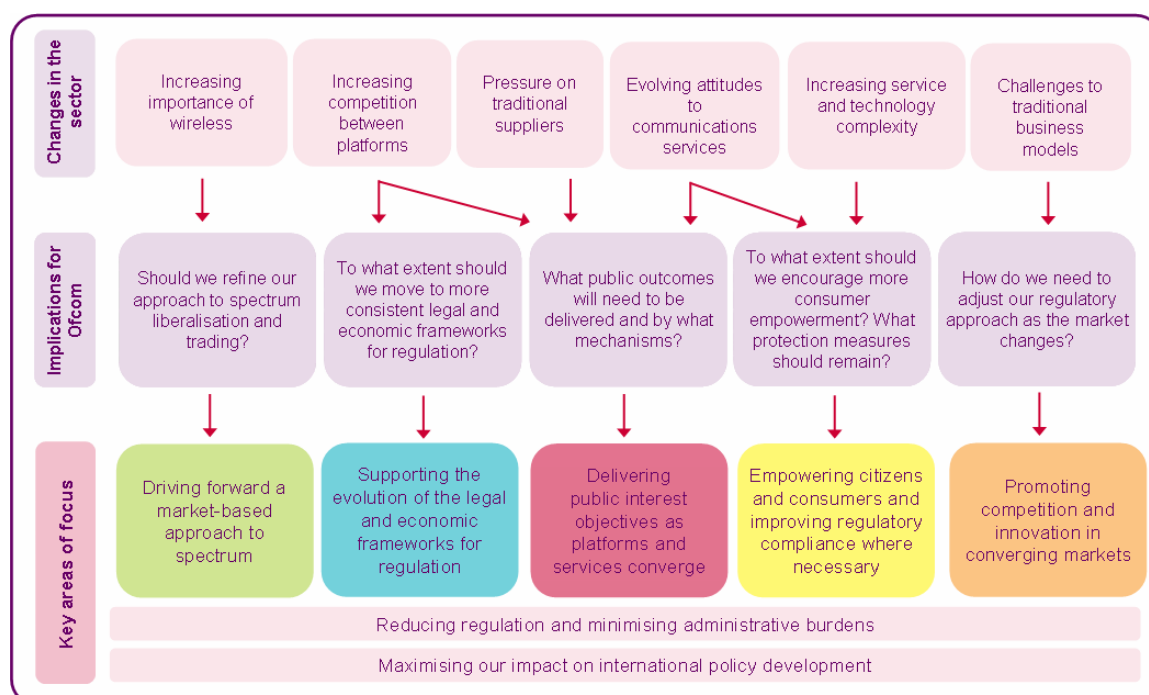
- 2.13 To achieve this, last year we outlined a three-year strategic framework, focusing our work on five key areas:

- **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 (that is, skills and knowledge to enable people to make full use of communications services, and to protect themselves from risks), and by 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.

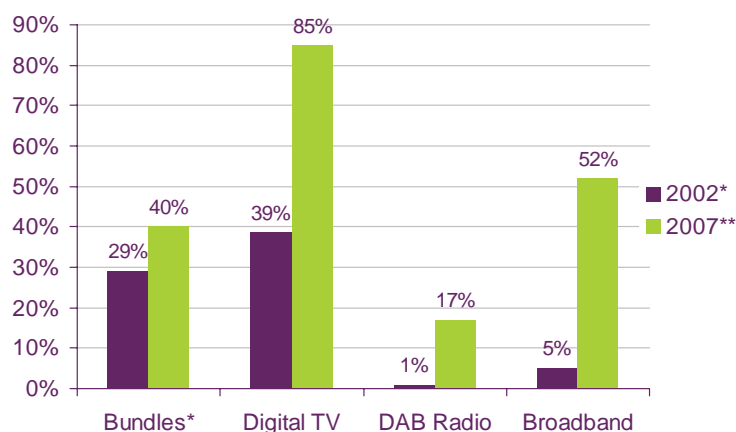
Figure 4: Ofcom's three-year strategic framework



- 2.14 This year we have reflected on the continuing relevance of our three-year framework in the light of ongoing market changes. Our analysis concluded that the framework remains highly relevant to achieving Ofcom's objective of maximising the benefits of convergence. Stakeholder responses to the Draft Annual Plan consultation were broadly supportive of this conclusion. We summarise below the key trends over the past year and their implications for our strategic approach and work programme for the coming year.

Convergence continues to accelerate

- 2.15 Ofcom was created to respond to developments in convergence. This continues to be at the heart of everything we do. Five years ago, when Parliament established Ofcom's remit, converged services were enjoyed by a relatively small share of the UK population. Today, such services are a mass-market phenomenon. A growing number of services are being launched over multiple, competing platforms both by traditional players and by new entrants, and an increasing number of consumers are using these services.
- 2.16 Take-up of all digital technologies increased over the past year as individual consumers and business users continue to embrace new services and applications. Among consumers, service bundles (including a combination of television, fixed line, mobile or internet services) are increasingly popular, and take-up of services such as digital TV and broadband continues to grow. Business users continue to value connectivity and employ communications services as part of wider strategies to enhance productivity.

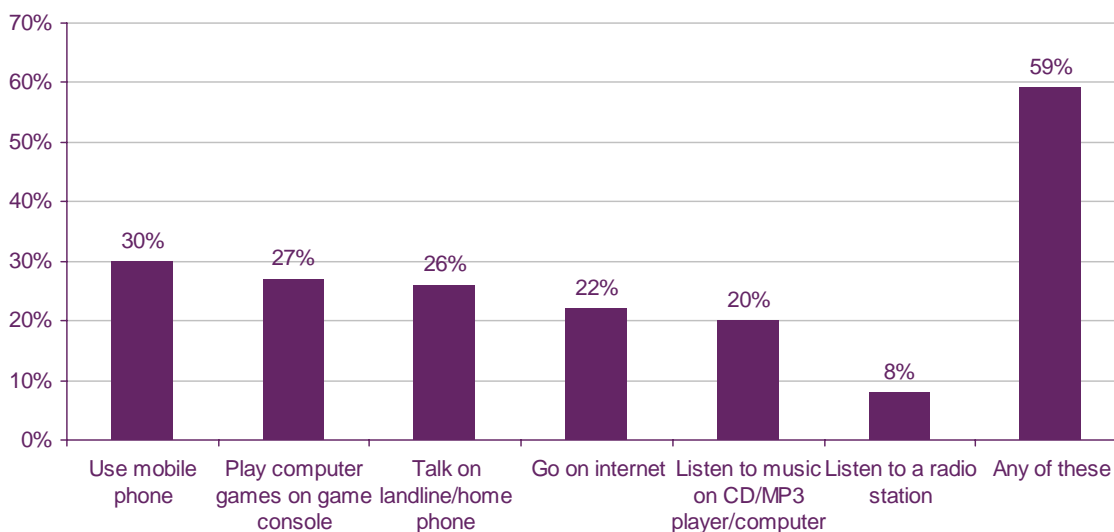
Figure 5: Take-up of bundles and digital services

*2005 for bundles

** Bundles, DAB Radio, Broadband: Q1 2007, Digital TV: Q3 2007

Source: Ofcom research

- 2.17 Market changes are affecting the business models both of traditional players and of new entrants to this sector. Increasingly, new service delivery models are emerging from a range of new companies from around the world. At the same time, traditional platform owners and service providers are experimenting with new platforms and services.
- 2.18 As consumers continue to adopt digital media, they increasingly access communications services over different platforms and devices. For example, 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 video clips or webcasts online. Thirty-three per cent of UK adults have listened to radio via digital TV sets, nearly a quarter via the internet, and 17% own a DAB device. A significant minority of UK adults now use mobiles to go online (13%) and to download music (11%).
- 2.19 There is also growing evidence that people are using different media simultaneously, rather than wholly replacing their consumption of traditional media with content delivered over new platforms. UK adults spent an average of 36 minutes per day using the internet in 2006, compared to 14 minutes in 2002. But the time they spent using television and radio declined only slightly, with a fall from 224 to 216 minutes per day for TV and 173 to 170 minutes per day for radio between 2002 and 2006. The usage patterns of younger generations suggest that this might be the case in the future: 59% of 5-15 year olds use the internet at the same time as performing some other media activity, according to our research.

Figure 6: Media activities sometimes or often done by children while watching TV

Source: Ofcom research, Q1 2007

- 2.20 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 publishing blogs, 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 ten year-olds, use the internet at home, rising to nearly 80% of 15year-olds. Further, 63% of children aged 8 to15 said they would feel left out without the internet¹.
- 2.21 The accelerating pace of convergence and the associated changes in consumption patterns have important implications for regulation. However, it is also important to recognise that some segments of the market are less affected by these developments. We discuss below the implications of these trends for each of the elements of our strategic framework.

Spectrum will continue to deliver economic and social value – efficient use of spectrum in the converged world is best achieved by a market-based approach

- 2.22 In setting our strategic framework last year we identified the growing importance of the UK's finite spectrum resource. Developments over the past year suggest that this trend will continue. Spectrum serves 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.
- 2.23 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. The majority of this increase came from the mobile and

¹ Source: Ofcom – *The UK Communications Market 2007*

broadcasting sectors, highlighting the growing value that consumers place on mobile wireless services and the growing take-up of digital television in the UK².

- 2.24 Alongside the traditional wireless communication services, use of new platforms is growing. The number of active 3G connections increased by 70% in the twelve months to March 2007, to 7.8m, while the number of WiFi hotspots grew by over 1,000 over the same period to reach 11,447.
- 2.25 New wireless services and applications continue to be introduced as companies seek to deliver new and convergent products. Mobile Voice over Internet Protocol (VoIP) is one of the latest examples of a service potentially bringing greater flexibility and value to UK consumers. Another example is the increasing capability of technologies like LTE and WiMAX to deliver wireless broadband service: of particular importance in making broadband available for mobile applications. This suggests that demand for spectrum will continue to grow, and that it will remain a major enabler of innovation in the future.
- 2.26 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.
- 2.27 Ofcom believes that a market-based approach to spectrum management generally provides the most suitable mechanism for achieving these goals. As set out in the Spectrum Framework Review (SFR), market-based approaches ensure that spectrum is put to its most efficient uses. Such an approach also helps achieve a greater transparency in the public uses of spectrum, compared to the 'command-and-control' style used to manage spectrum in the past.
- 2.28 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 to grow. As a result, stakeholders continue to demand access to spectrum to launch such new services. Our policy of spectrum release is central to fulfilling this demand, and it is important that we continue with this process in the coming year. Our priorities include the completion of the L-Band award, the 2.6 GHz award and the Digital Dividend Review for the spectrum freed up by digital switchover. These releases will help us to continue to meet increasing demand 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. To address the challenges we have seen in the past year, we are considering ways to accelerate the pace of spectrum liberalisation and trading during 2008/09.

² For more detail, please see

http://www.ofcom.org.uk/research/radiocomms/reports/economic_spectrum_use/

Promoting competition and innovation will drive consumer benefits and remains key to our strategic framework

- 2.29 Promoting competition is a key area of Ofcom's efforts to deliver the benefits of convergence to all UK citizens and consumers. Competitive markets display greater levels of innovation, more choice, higher quality services and lower prices. As a result, promoting competition where appropriate was placed at the heart of Ofcom's duty to further the interests of consumers.
- 2.30 Market developments over the past year highlight the benefits of competition in the communications sector. Consumers now enjoy lower prices and have access to a greater choice of services and providers. The real cost of an average basket of household telecoms services has fallen by 38% in real terms between 2002 and 2006 (from £104.82 to £69.85). Evidence of increased choice can be seen in the broadband market: more than 60% of customers now have a choice of four or more network providers. As a result of growing competition we have witnessed high take-up of these services, and the launch of new services, including higher bandwidth broadband and IPTV.
- 2.31 The benefits of competition are also being felt by businesses. For example, the majority of business customers consider the fixed telecoms market competitive, with over 80% considering the price, quality and range of service offered in the market to be either extremely or fairly competitive, according to Ofcom research in 2007. Small and medium-sized enterprises (SMEs) and large businesses have seen average annual spend on fixed voice services fall by an average of 8% per annum between 2004 and 2007. SME broadband spend fell by an average of 20% per annum between 2004 and 2007, while spend by large businesses fell by 3% cent per annum on average over the same period³.
- 2.32 In setting our strategic framework last year, we identified a number of trends that are changing the competitive landscape in the UK communications industries. Traditional business models are facing growing challenges from new entrants and new service delivery mechanisms. While convergence should therefore increase competition and create significant consumer benefits, there is an ongoing risk of new sources of market power emerging from developments in convergence.
- 2.33 We expect these trends to drive further changes in UK industry. It is therefore imperative that Ofcom continues to examine developments in convergence closely. We need to promote a competitive environment for the delivery of services to all communications users, including individual consumers and business.
- 2.34 At the same time, Ofcom recognises the need for continued efforts to address competition problems within existing markets, and sees this as a key area to address in the course of 2008/09. In particular, we remain committed to the delivery of equivalence in the fixed telecommunications sector to ensure effective competition and consumer benefits. We will need also to consider carefully the competitive prospects for the UK's pay TV and multichannel services and platforms.
- 2.35 Some parts of the communications sector are experiencing new pressures. For example, the mobile sector is undergoing change arising from slower growth, intense retail competition, growing service demands and technological change. It is therefore



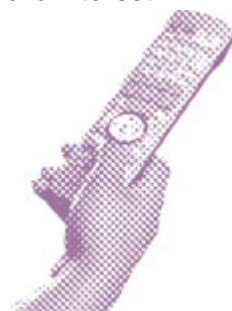
³ For more detail, please see http://www.ofcom.org.uk/telecoms/btundertakings/tsr_statement/

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

- 2.36 We also need 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.
- 2.37 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. Although convergence may mean that 'new' competition bottlenecks emerge, it is unclear what the long-term implications of this will be. We need to continue closely monitoring developments in this area.

Convergence raises challenges for delivering broader public interest objectives – we must consider new, forward-looking approaches to delivering public goals

2.38 When setting our strategic framework last year, we highlighted the implications that convergence may have for the current means of delivering broader public interest objectives in 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 interest outcomes easier to achieve either without intervention or by intervening in a less intrusive way. For instance, there are now more platforms capable of delivering services which would previously have been 'crowded out' in a market characterised by scarce resources. One example is local television, where there are new opportunities for delivering content to local audiences, arising from broadband and more flexible use of the UHF spectrum.



- 2.39 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 substitutability between platforms, continues to grow. This is driven in part by developments in technology, but also by the changing attitudes of consumers, especially younger consumers, to communications services. As a result, the funding models used in the past may need to be adapted to find new, transparent and forward-looking mechanisms that reflect the opportunities and challenges resulting from convergence.
- 2.40 The delivery of public service broadcasting (PSB) is a key area where the effects of ongoing market changes are perhaps being felt the most. Audience fragmentation and the declining value of analogue TV licences are placing increasing pressures on PSB delivery models. This is felt in a number of areas – for example, declining investment in original children's content, the increasingly challenging economics of regional news⁴, and likely future financial pressures on Channel 4.⁵
- 2.41 Radio is another example of a traditional media platform that is facing rapid change. The platform continues to be universally valued, reaching 92% of the UK population on a weekly basis. The oldest traditional media platform, radio continues to be at the

⁴ 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/>

⁵ See the Channel 4 financial review document at http://www.ofcom.org.uk/media/news/2007/04/nr_20070404a

forefront of developments in convergence. Consumers increasingly access radio via digital platforms – in Q1 2007, 33% said they listened via digital television, 22% accessed digital radio stations on the internet, 17% owned a DAB set, 12% listened to radio via mobile phones. In addition, 18% of MP3 owners downloaded podcasts. At the same time, the share of listening to local commercial radio has been in decline since 2004. Commercial radio revenue has also declined from its peak of £560m in 2004, to £512m in 2006 – although there have been signs of recovery during 2007, with a 7.1% year-on-year increase in Q4 2007, according to data published by the Radio Centre.

2.42 To start addressing these new challenges, Ofcom has initiated work in a number of specific areas, including:

- *public service broadcasting* – 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 last 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 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 working 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 depends on the wide availability of services. Our work on access and inclusion will examine the availability of existing telecommunications. We must also consider the availability of new platforms and services, such as next generation access broadband services and mobile TV, and the implications that availability may have for access. 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 in the coming year. We will help ensure that the needs of all consumer groups are addressed in the switchover process and that technical transition runs smoothly. To achieve this, we will continue providing full support to the Government and Digital UK as they lead the switchover process.

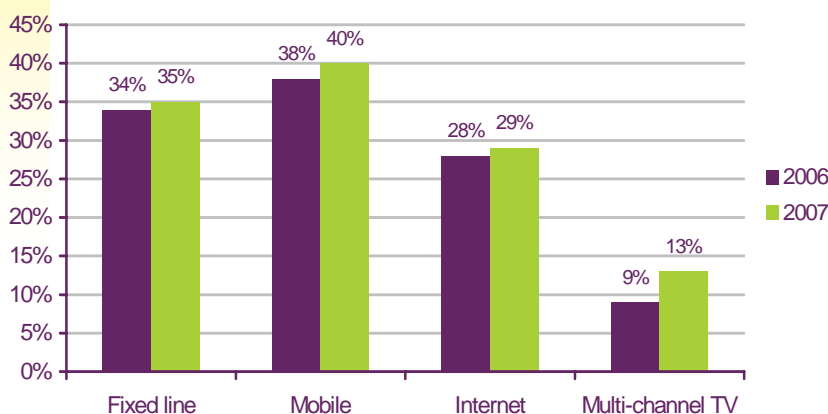
Empowering consumers and maintaining regulatory compliance is key to meeting the consumer interest in a converged world



2.43

The fast pace of change and increasing diversity of services mean that consumers' needs for empowerment and protection are changing. In telecommunications, the number of new offers is growing continuously and service propositions are often more 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 shown in Figure 7.

Figure 7: Residential consumers who have ever switched provider



Source: Ofcom research

- 2.44 Consumer information is increasingly important in enabling effective choice in the marketplace. One recent example of this is in 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. This is an area we expect to work on with industry to improve clarity and transparency for consumers in the coming year.
- 2.45 Concerns about consumer empowerment and regulatory compliance are often considered in terms of new and emerging services. However, it remains important to maintain appropriate consumer protection on traditional platforms. In broadcasting, a number of issues have emerged recently, for example in relation to phone-in competitions and programmes which breach existing codes in other ways by materially misleading their audiences. We therefore need to continue working to ensure efficient implementation of current broadcasting codes, responding quickly and efficiently to any cases of malpractice.
- 2.46 While there have been improvements in the level of consumer awareness and switching between services, we must ensure that this trend 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.
- 2.47 We will also 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. And it will enable people to protect themselves and their families from possible risks

presented by new services. We need to 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.

- 2.48 In all these areas we will consider how co-regulation and self-regulation may be employed to support flexible and efficient ways of protecting and empowering citizens and consumers. We will also 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 – Ofcom has an important role to play in supporting this evolution

- 2.49 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. For example, multichannel TV is available over Digital Terrestrial Television (DTT), free satellite and pay satellite as well as over broadband networks. Moreover, a growing number of internet users, and in particular younger users, now access different kinds of content and services online.



- 2.50 These developments are exposing differences in how services delivered over different platforms are regulated. For example, many of the rules applicable to content delivered by traditional platforms do not apply to very similar or identical content on the internet. Many of these differences are appropriate as consumers have different expectations as to the appropriate level and type of regulation on different platforms. Nonetheless, in some areas, regulatory approaches may need to be adjusted to reflect the new delivery mechanisms and ways of consuming communications services.

- 2.51 Wider developments over the past year indicate the need for communications regulation to evolve and adapt to the changing circumstances. We need to continue to reflect 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.

- 2.52 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 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.

- 2.53 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 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 access.

- 2.54 To consider the broader questions raised by all these developments we will work with the Government's Convergence Think Tank to contribute to the emerging thinking about the future evolution of legislation in the communications sector.

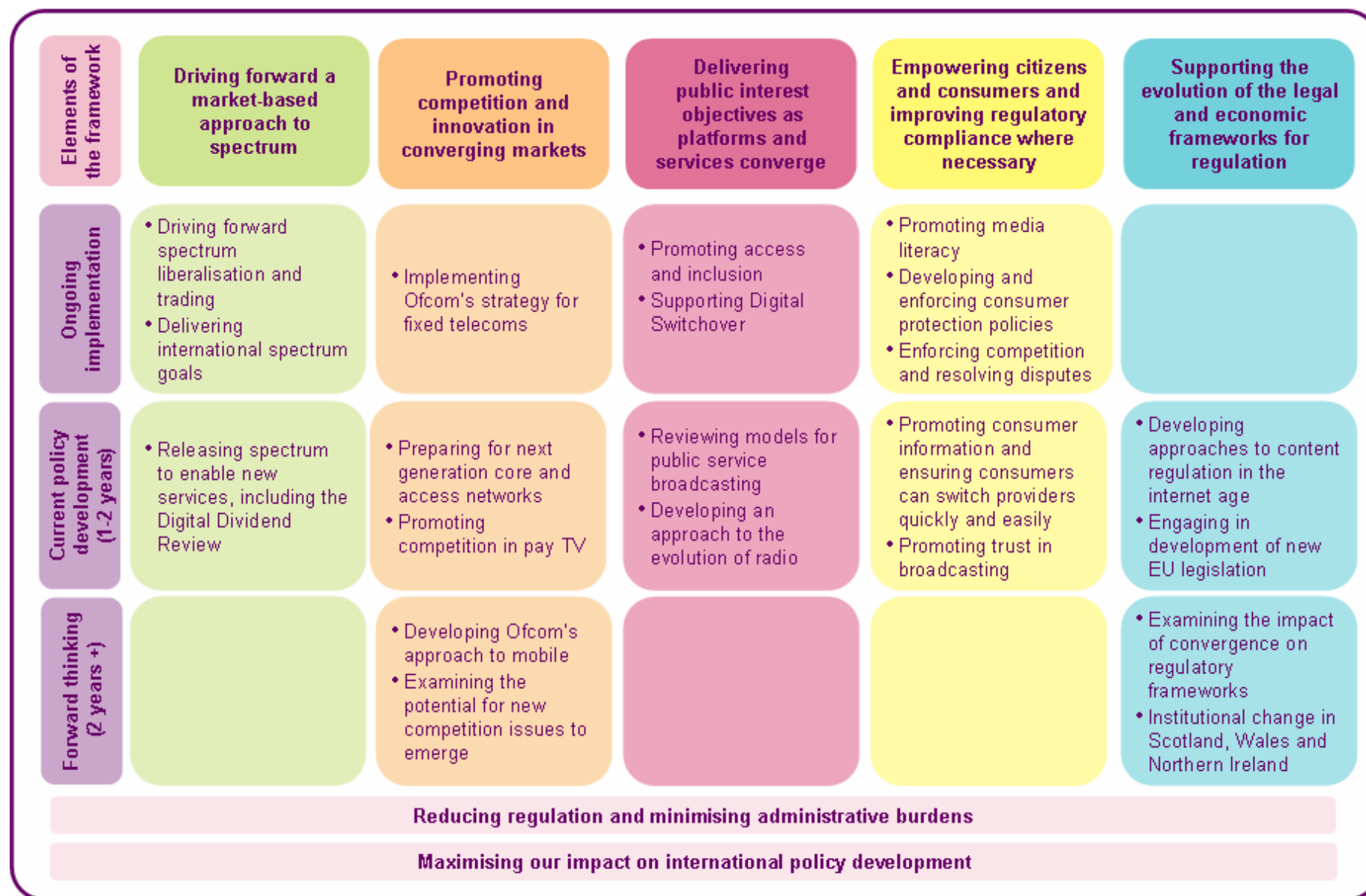
Ofcom's work programme

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



- 2.55 In light of our analysis of market trends, and based on stakeholder feedback to the Draft Annual Plan consultation, we believe that our three-year strategic framework continues to be appropriate to addressing the questions arising from convergence. It provides a means to focus on the key sector developments, and to concentrate our efforts on fulfilling our duties in the most effective way.
- 2.56 Market developments over the past year have also suggested a number of areas for Ofcom to address in 2008/09, as shown in Figure 8 on page 21. There are three types of activities in our overall work programme:
- **Ongoing implementation:** these are activities resulting from past policy projects which are now being implemented, for example, 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. These include work on examining potential new competition bottlenecks resulting from convergence, and preparation for new UK legislation.

Figure 8: Strategic policy framework and major work areas for 2008/09



Enhancing Ofcom’s ability to deliver in key critical areas

2.57 Based on our analysis of market developments, we have identified 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 for Ofcom to address across the board. To ensure that we are well-equipped to deliver on Ofcom’s commitments towards UK citizens and consumers, we have looked to enhance our ability to plan and focus on the most critical work.

2.58 We have introduced two changes to our planning process to help focus and prioritise our work more efficiently:

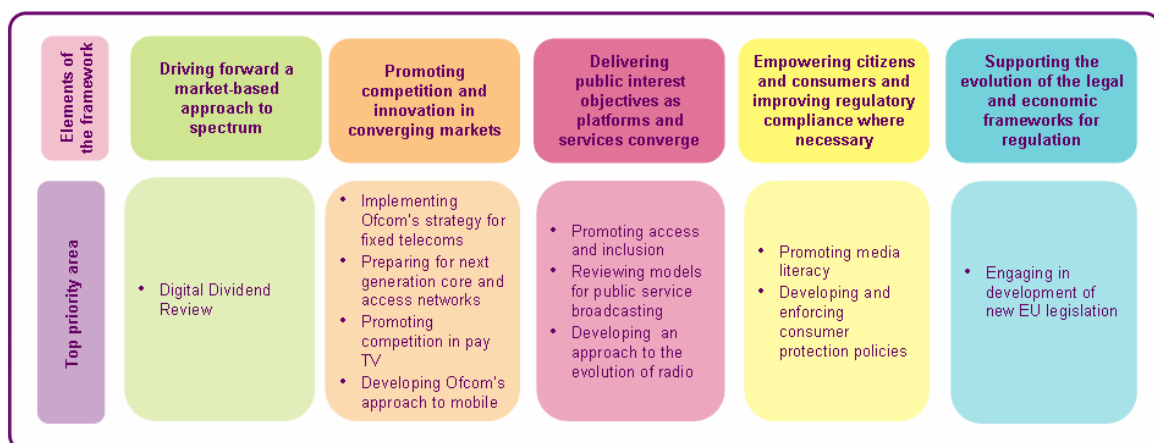
- we have identified a number of top priorities within our work programme - these are projects where progress is particularly in 2008/09; and
- we will reserve a share of Ofcom’s internal capacity explicitly for dealing with unexpected issues arising in the course of the year.

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

2.59 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.

2.60 We have identified a number of priority areas for 2008/09, as outlined in Figure 9 below. These were identified after consultation with Ofcom’s advisory bodies that look after specific elements of consumer and citizen interests, and received broad support in our consultation with stakeholders on the Draft Annual Plan.

Figure 9: Highest priority areas for 2008/09



2.61 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.

- 2.62 However, designating highest priority areas does not mean that other areas of policy and operational work identified for 2008/09 are not also 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

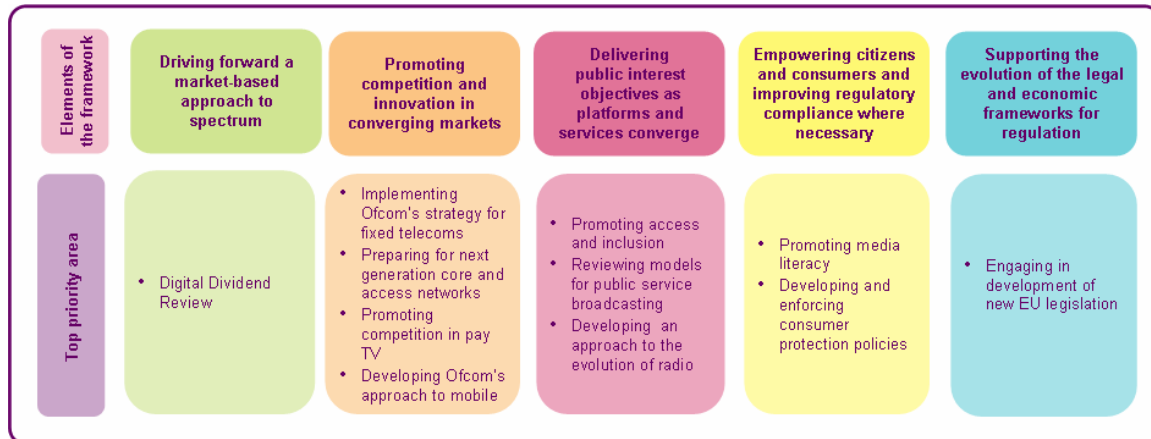
- 2.63 The second change to our planning process is to reserve a share of our capacity for unplanned work, to enable us to respond quickly and efficiently to any urgent citizen and consumer issues arising in the course of the year.
- 2.64 Our experience over the past four years has shown that, while 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. Ofcom has had to adjust its plans in a variety of areas over the past year due to unplanned external developments. For example, we brought forward the PSB Review in response to accelerating pressures on the commercial public service broadcasting model. Another example is the call 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.
- 2.65 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.
- 2.66 Our plans will then be updated every quarter to make sure we keep pace with the rate of market change and address the most critical issues affecting citizens and consumers at any one time. We will reflect adjustments to our work programme in the detailed table of outputs published on Ofcom's website every quarter.

Section 3

Detailed work programme

Top policy priorities in 2008/09

Figure 10: Highest priority areas for 2008/09



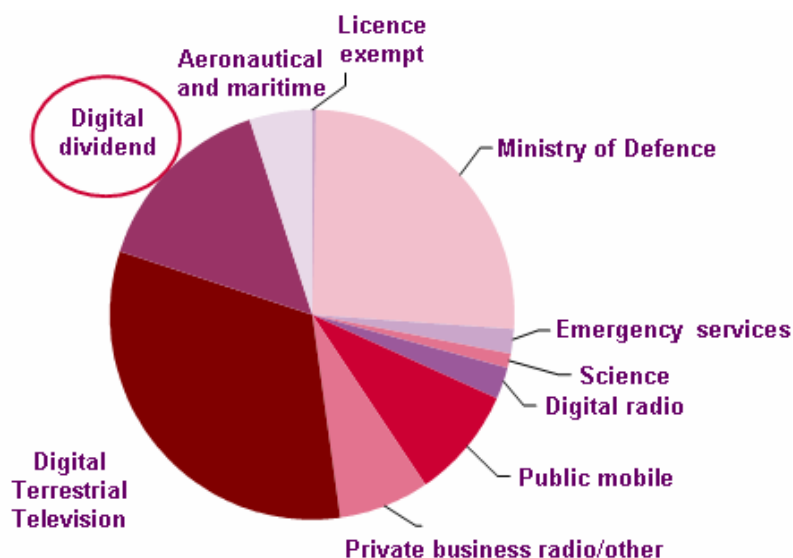
Digital Dividend Review

- 3.1 The Digital Dividend Review is taking forward the release of spectrum freed up by digital switchover—the so-called digital dividend.
- 3.2 We published a statement setting out our strategic approach to the award of the digital dividend on 13 December 2007. We concluded, in the light of all the evidence available, that we should take a market-led approach. This means that, with one important exception, we will auction the spectrum in a way that allows users to decide how the spectrum should be used and creates the maximum flexibility and opportunities for different technologies and services.
- 3.3 We carefully considered arguments for reserving spectrum for a variety of particular uses, but we did not find them compelling. Giving spectrum to one use will deny it to others. It will also tend to reduce flexibility and blunt incentives. We recognise that many services can provide broader social value, but we do not think that support via implicit subsidies in the form of spectrum is necessary to realise this. Explicit support through direct funding is more transparent and can achieve a better outcome.
- 3.4 The exception to our market-led approach is programme-making and special events (PMSE), which already uses the spectrum interleaved (i.e. shared) with terrestrial television on a large scale. This is an extremely diverse community, and we do not think that it would be able to take part effectively in an auction, creating a serious risk of market failure. We will therefore hold a beauty contest to award a package of interleaved spectrum to meet PMSE users' needs.
- 3.5 Our statement marked the end of the first phase of the Digital Dividend Review. We are now working on the next, equally important phase: the detailed design of the award processes and the licences. Promoting competition and innovation will be at the heart of our work, and we will look carefully at how to encourage entry and guard against the risk of anticompetitive behaviour. Our experience suggests

that, if spectrum auctions are well designed, they can be powerful tools for creating a more competitive landscape.

- 3.6 We will consult on our proposals for detailed award design early in 2008/09. Following this, we aim to publish further statements, information memoranda and draft regulations during the course of the year.

Figure 11: Use of 200 MHz to 1 GHz at digital switchover



Source: Ofcom

Implementing Ofcom's strategy for fixed telecoms

- 3.7 Central to competition in the fixed telecoms sector will be ensuring 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.

- 3.8 In 2008/09 we plan to focus on four key areas:

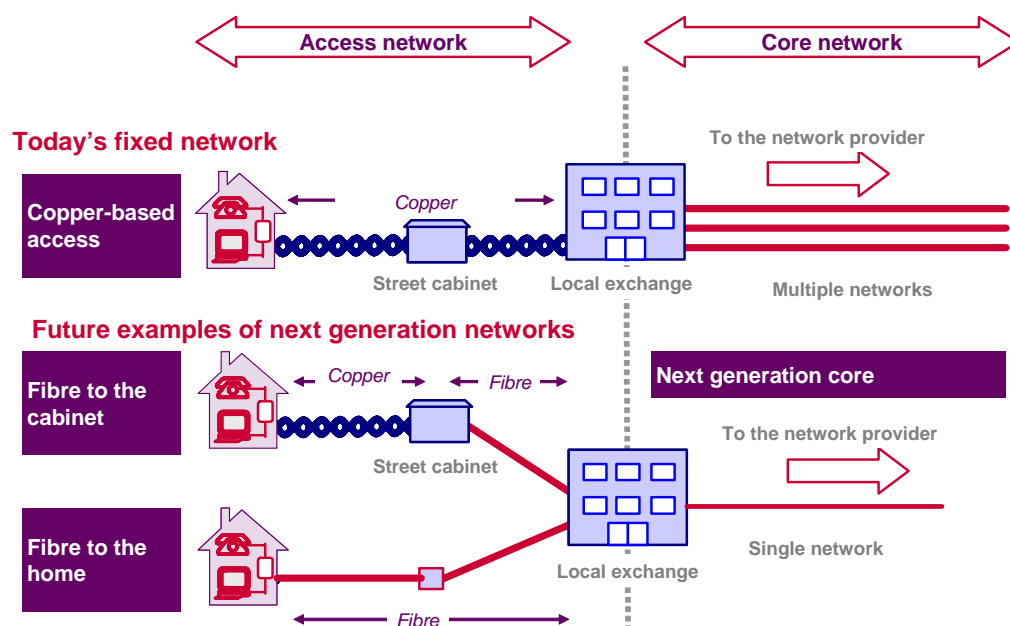
- 1) Ensuring that BT Group plc implements its Undertakings effectively by:
 - monitoring BT's 21st Century Network deployment plans to ensure that BT delivers on its equivalence of inputs obligations as well as the requirement not to foreclose network access;
 - monitoring BT's progress against the 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 changes in the market;
- 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 business connectivity market review; and
- 4) commencing work on retail and wholesale narrowband market reviews.

Preparing for next generation core and access networks

- 3.9 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.
- 3.10 Deployment of next generation core networks is already in progress by a number of operators, and BT is currently in the process of deploying its own, 21st Century Network. 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.
- 3.11 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.
- 3.12 On next generation access (NGA) networks, we must consider the right approach to regulating any 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.
- 3.13 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.
- 3.14 Since we published our consultation on the Draft Annual Plan, the Department for Business, Enterprise and Regulatory Reform (BERR) has announced an independent review of the path to next generation access, to be led by the former Cable & Wireless Chief Executive, Francesco Caio.
- 3.15 Ofcom understands that the review will focus on what role the Government can play in facilitating the path to next generation access deployment here in the UK. BERR has made clear that the review will take account of the Ofcom consultation on next generation access policy, which the independent review is intended to complement. Ofcom has welcomed the review and is looking forward to working closely with Mr Caio and his team.

Figure 12: Next generation core and access networks



Source: Ofcom

3.16 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 the 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

3.17 The pay TV market has seen substantial growth in recent years, and is now worth £4bn 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 (for Football Association Premier League matches) are sold, to enable more players to enter the market; and
 - a proposal by BSkyB to launch a new pay TV platform using DTT capacity which is currently used for Freeview free-to-air channels.
- 3.18 The results 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.
- 3.19 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. A consultation on this closed on 26 February, in which we sought 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.
- 3.20 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 closed on 14 December and we received over 400 responses. 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 early 2009.

Developing Ofcom's approach to mobile

- 3.21 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; and
 - second, to define the principles that will inform Ofcom's work for the next phase of the market's development.
- 3.22 We published guidelines setting out the objectives and scope of the mobile sector assessment on 7 February 2008⁶. The project will consider a broad range of issues, including: the implications of continuing convergence; the aims of

⁶ Please see <http://www.ofcom.org.uk/research/telecoms/msa/msa.pdf>

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.

Promoting access and inclusion

- 3.23 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. In carrying out this duty Ofcom has to have regard to particular groups, such as people living in rural areas and disabled people.
- 3.24 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.
- 3.25 This area of work will include projects examining how services vary across the UK and Ofcom's approach to services for disabled communications users.
- 3.26 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.
- 3.27 This work will also develop Ofcom's input to the UK's response to the European Commission's consideration of the future scope of Universal Service during 2008.
- 3.28 We will also take forward policy work developing an Ofcom-wide strategy on easily usable equipment.

Reviewing models for public service broadcasting

- 3.29 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.
- 3.30 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.
- 3.31 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.
- 3.32 As part of this work we will examine the delivery of public service content for the UK nations and regions. This will involve consideration of the purpose, benefit and sustainability of plurality within those services, and will also include consideration of the potential for local content services to make a contribution to public purposes.
- 3.33 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.
- 3.34 The first consultation document, planned in April 2008, will cover a number of discrete areas such as children's programming, regional news and funding for Channel 4.
- 3.35 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

- 3.36 We have four key strands of activities to support the ongoing evolution of the radio platform:
- in the light of developments in the market, we will undertake further work on the radio sector to develop a better understanding of the importance of universal provision on different platforms; how localness on radio relates to provision of local content on other media; and the importance of plurality and choice in radio in a changing media environment;
 - alongside this 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.

3.37 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 37.

Promoting media literacy

- 3.38 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 were 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.
- 3.39 We recognise that people will face new opportunities and challenges in media and telecommunications in the coming years. We need to be able to respond quickly and effectively to address emerging issues. The recommendations arising from the Byron Review into the risks to children from exposure to potentially harmful or inappropriate material on the internet and in video games may impact on Ofcom's detailed work plan to promote media literacy.
- 3.40 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 published in February this year common principles for the provision of information about potentially harmful and offensive commercially produced and acquired audiovisual content on all platforms. We hope this work will empower users to make informed choices and better manage their family's relationship to audiovisual content.
- 3.41 Alongside 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 technical standard and kitemark scheme developed in partnership with the Home Office, Ofcom and the British Standards Institution will result in internet filters that are more effective in blocking inappropriate content and offer greater support to parents in their use.
- 3.42 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.
- 3.43 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.

- 3.44 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

- 3.45 This work 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.
- 3.46 The work will 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.
- 3.47 We will take forward our work considering the effectiveness of complaints handling by communications providers and the Alternative Dispute Resolution (ADR) procedures in telecoms. 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.
- 3.48 We will also complete our review of additional charges and carry out enforcement action where necessary.

Engaging in the development of new EU legislation

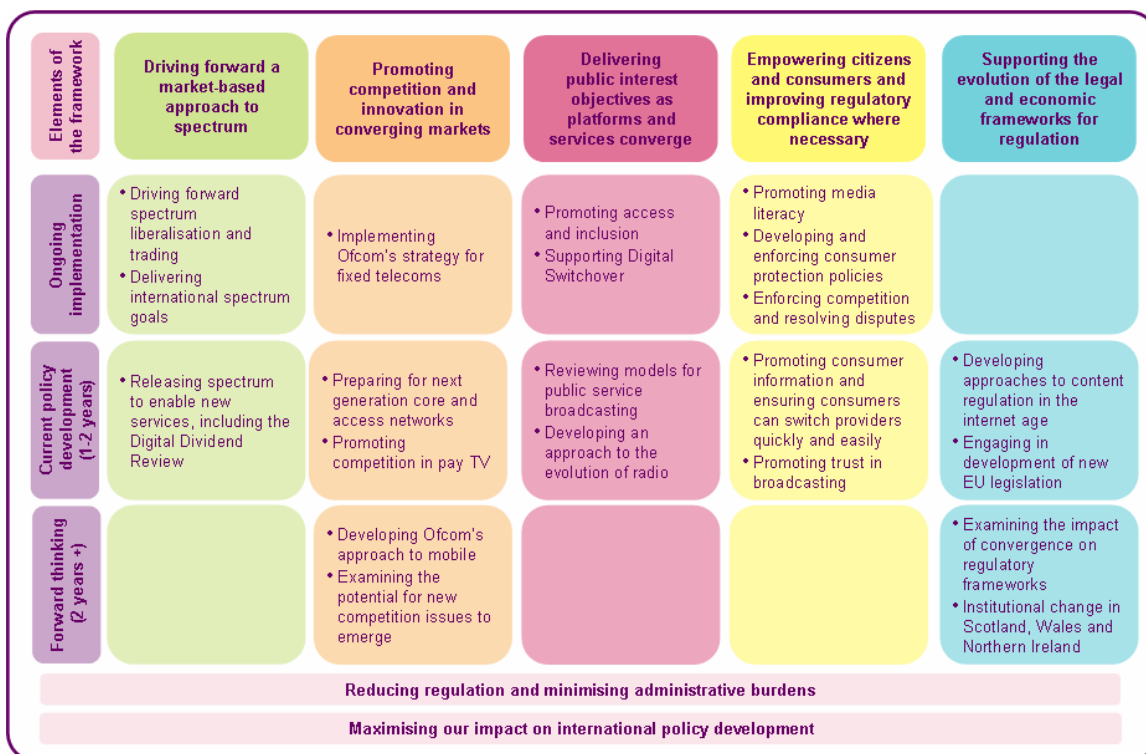
- 3.49 There are several critical areas of EU-level policy development for Ofcom to focus on in 2008/09. We will:
- work with the UK Government to ensure that the interests of UK citizens and consumers are fully represented in the Review of the European Framework for electronic communications;
 - provide 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 the Universal Service Directive.

Wider work programme for 2008/09

3.50 In addition to the top priority areas identified above, we have a number of other important projects and activities planned for 2008/09. This section provides details on our wider work programme, describing the major areas of work planned. They fall into the following categories, as detailed in Figure 13:

- 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 13: Ofcom’s work programme for 2008/09



Driving forward a market-based approach to spectrum

3.51 In 2008/09 Ofcom will continue to focus 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, thereby 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:

- **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 14 below. In addition, we will review all other spectrum bands to consider if other awards are appropriate.

Figure 14: Key areas of spectrum awards 2008/09

BAND	MAIN POTENTIAL USES
Completing awards	
L-Band award (1452 – 1492 MHz)	Mobile television, digital radio and satellite radio broadcasting
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
Exploring scope for new awards	
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

3.52

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.

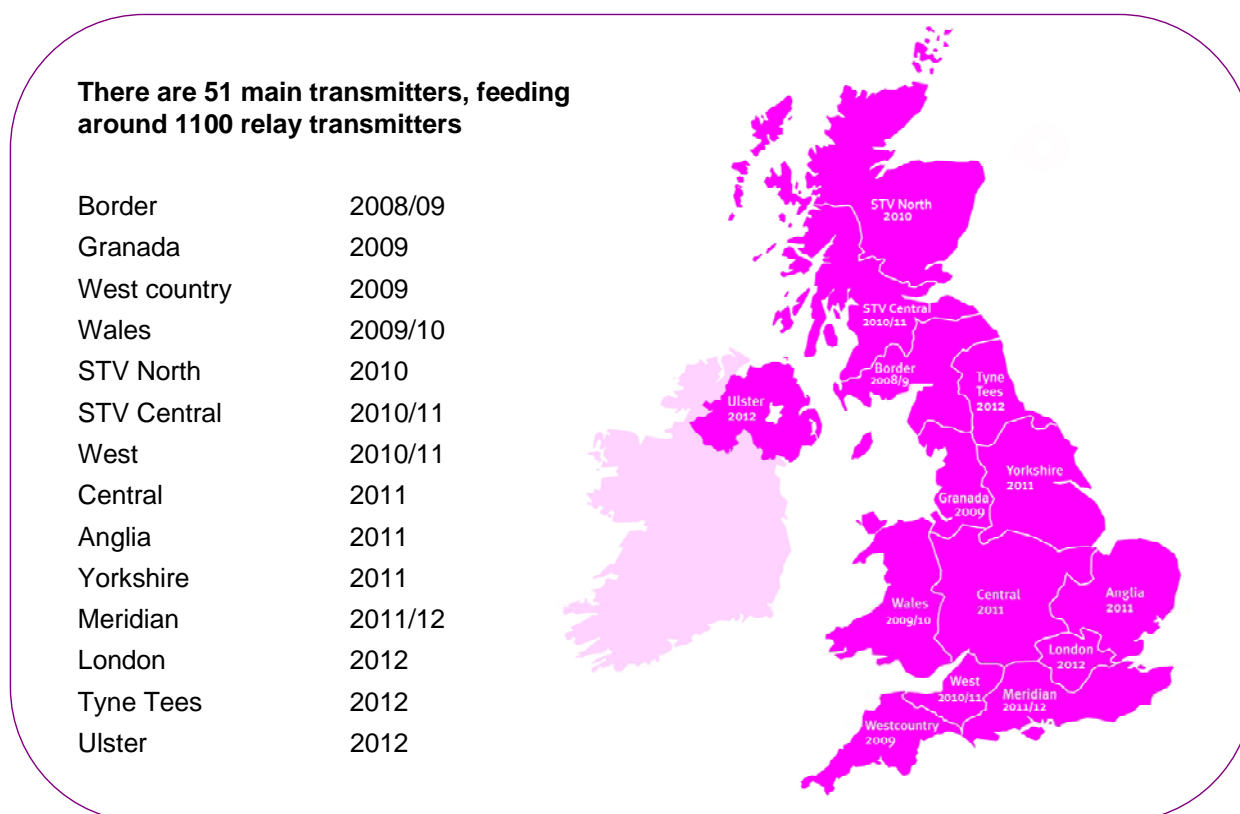
- **Additional policy projects.** In addition to the above, we will also:
 - implement the policy approach for the wholesale broadband market set out in our review of the wholesale broadband access market;
 - conclude the business connectivity market review, and develop charge controls for leased lines;
 - 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

3.53 Delivering on public interest objectives may grow increasingly difficult as the trend towards convergence increases as discussed in Section 2. 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 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 that is expected to complete in 2012. We will support this process throughout our activities in licensing, spectrum planning and international spectrum co-ordination work as well as in research and relevant policy activities.

Figure 15: Switchover map and sequence



Source: Digital UK. Please note that the map does not include Channel Television – the ITV broadcaster in the Channel Islands. Channel TV is due for switchover in early 2013

- **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 the outcomes of our consultation on the reorganisation of the multiplexes, and the allocation of capacity for 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 in section 3.37), 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

3.54 We continue to believe that delivering consumers' and citizens' 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, our role 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 take measures aiming to prevent significant disparities between consumers' expectations of broadband speeds and their actual experience. We are also considering whether, and in what form, consumers should be provided with more information on the quality of service of different broadband internet service providers.

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 the light of changes in gambling legislation;
- considering how our approach to content regulation should evolve in the light of the implementation of the Audiovisual Media Services Directive, and taking into account the emerging themes in the PSB review;
- 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**

We will continue to afford protection to citizens and consumers in the broadcasting sector by:

- further developing the Broadcasting Code according to changes in society and in the broadcasting and regulatory environment;
- adjudicating on complaints about infringements of privacy and unfairness made by those directly affected by programmes; and

- investigating potential breaches of our codes whether raised by members of the audience or through our own monitoring and taking the appropriate regulatory action against broadcasters where appropriate.

The review of rules on advertising of high fat, salt and sugar (HFSS) food and drink to children:

- We will commence a review of the effects of HFSS restrictions in July 2008, aiming to complete this work in the autumn. In conducting the review, we will work with the Department for Culture, Media and Sport, and with the Department of Health, which is collecting data about advertising across all media. We will also work closely with the Food Standards Agency, which will be reviewing the operation of its scheme enabling advertisers to assess levels of HFSS in their products, and whether they may advertise during children's airtime.

Considering the evolution of legal and economic frameworks for regulation

3.55 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 the 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. We will also contribute to the government's work on future approaches to content regulation through our engagement in the Convergence Think Tank;
- **Examining the impact of convergence on regulatory frameworks** – we will engage with the Government's Convergence Think Tank 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 to examine 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

3.56 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. As in the past, we will assess any such initiatives carefully, seeking to reduce regulation where appropriate whilst striving to ensure that citizen and consumer interests continue to be met.

3.57 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 Services 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, both on commercial public service broadcasters and on cable and satellite channels.
- In 2008/09, we will continue to reduce restrictions on the use of spectrum through 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 the General Conditions and making them more accessible. 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.

3.58 Our simplification plan, published on Ofcom's website on 6 December 2007, sets out Ofcom's efforts in this area in further detail.

Maximising our impact on international policy development

3.59 In addition to Ofcom's input into major EU-level policy development activities (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 4

Providing services to citizens and consumers

- 4.1 As well as policy development, Ofcom delivers key services to citizens, consumers and other stakeholders such as users of spectrum.
- 4.2 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 are also contacted by a variety of stakeholders resulting in Ofcom taking direct enforcement action, for example in keeping the airwaves free of interference.
- 4.3 In 2007 we insourced spectrum licensing operations at an annual saving of around £0.5m, including the facility for amateur and maritime licences 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 programme will continue in 2008 to enable the future trading of spectrum as part of our market-based approach.
- 4.4 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.
- 4.5 We have already made significant improvements to our operational services, together with efficiency savings which we detail in Section 5.

Keeping the radio spectrum free of interference

- 4.6 We monitor the radio spectrum and take action to prevent spectrum interference. The increasing demand for spectrum is leading to more intensive use 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.
- 4.7 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 strategies, the volume and mix of work, people-management and culture.
- 4.8 In 2008 we also plan to move to a green vehicle policy as part of our environmental project.
- 4.9 We constantly review our operational procedures and in 2007 introduced a centralised triage function to conduct initial diagnostics, aimed at a more targeted and faster deployment of the field force.
- 4.10 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

- 4.11 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.
- 4.12 In 2007, we insourced licensing operations from national and regional centres and also from 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.
- 4.13 This programme 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.
- 4.14 In 2008 we aim to enhance the licensing service by:
- implementing individual fixed link licences to enable easier multiple site reconciliation for service providers;
 - increasing the range of electronic licensing services available to stakeholders; and
 - implementing systems to enable a market-based approach to spectrum for the future.
- 4.15 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

- 4.16 Ofcom's Central Operations Team deals 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.

- 4.17 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.
- 4.18 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.
- 4.19 The Ofcom Advisory Team also receives enquiries about the use of the radio spectrum, although these are mainly referred to our dedicated Licensing Centre.
- 4.20 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 arise all the time and create unexpected increases in the number of complaints we receive.

Allocating telephone number blocks to service providers

- 4.21 Ofcom plays an important role in allocating telephone number blocks 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. In 2006 we received 2,488 applications, and the number grew further in 2007, to 2,693.
- 4.22 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 0500 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.
- 4.23 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

- 4.24 Ofcom provides the information services which underpin delivery of services to stakeholders, such as those enabling increased online access to services.
- 4.25 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.
- 4.26 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

- 4.27 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 procedures or advice.

Publishing market research and communications market reports

- 4.28 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 aim to publish all research conducted to support policy projects.

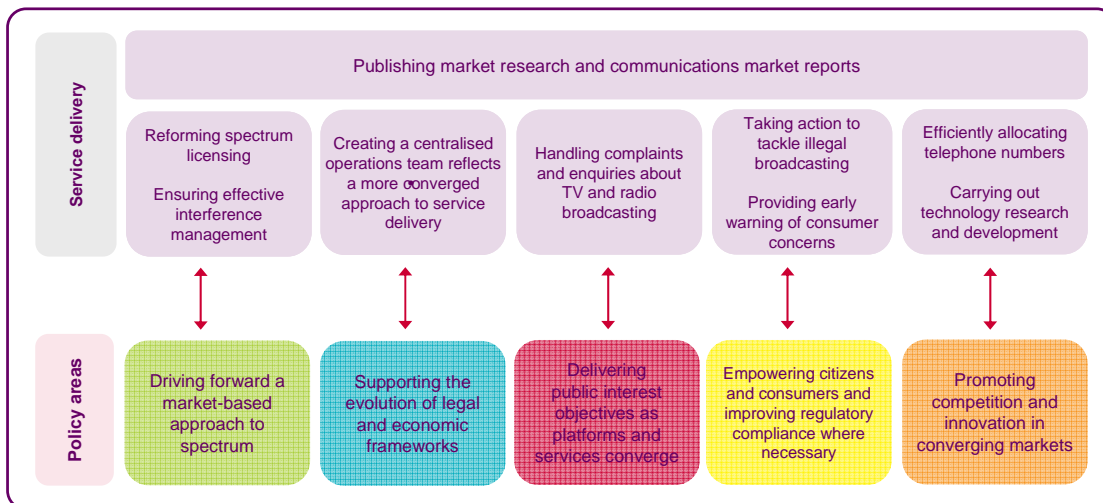
Links between operational and policy delivery

4.29 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 Ofcom Advisory Team, 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.

4.30 Figure 16 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 16: Links between operational and policy delivery



Adopting sustainable practices

4.31 Ofcom seeks to adopt sustainable practices throughout its policy and operational work. In the light of growing public concern over environmental issues we decided to develop a comprehensive approach to ensure that our activities are environment-friendly. As part of this effort, we performed an initial carbon audit of our operations in late 2007, identifying a number of areas where we could make a positive difference - for example, in employee commuting and the power consumption of data services. We have already started work in these areas, and during 2008/9 will undertake further analysis and develop a programme of enhancements to ensure that our operations adhere to best environmental practice.

Section 5

Delivering value to stakeholders

- 5.1 Since its inception Ofcom has maintained its commitment to maximising the 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.
- 5.2 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 budgetary requirements. In addition, 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. We stated in the Draft Annual Plan that this suggests the scope for further budgetary reductions may be more limited in the coming years.
- 5.3 Our budget for 2008/09 has been set at £133.7m – this is a 1.5 per cent reduction in real terms compared to last year's budget.

Enhancing value for money

- 5.4 In the four years of Ofcom's existence we have consistently worked to achieve efficiency savings through streamlining our activities and investing to improve the effectiveness of our operations:
- Ofcom continues to operate with a headcount of approximately 350 fewer than the 1152 colleagues directly employed by the combined regulators that Ofcom replaced;
 - the project launched to integrate and rationalise the 70 operating systems inherited from the previous regulators is now well advanced, 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 Central 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 our tendering processes 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 our printed publications, and we will ensure that all Ofcom's publications can be easily accessed on our website.

Ofcom has finished repaying its set-up loan

- 5.5 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.
- 5.6 We finished the re-payment of the loan and the accumulated interest in 2007/08, paying back the remaining £5,362,000. Figure 17 below shows the schedule of repayments and the split of the costs allocated across our different stakeholder groups.
- 5.7 This means that in 2008/09 there will no longer be any contribution to loan repayments required from stakeholders.

Figure 17: 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
Networks and services		2,723	2,592	2,672	2,560	10,547
Television		2,578	2,454	2,530	2,423	9,985
Radio		403	383	395	379	1,560
Other	7,328	13,948	13,425			34,701
Total	7,328	19,652	18,854	5,597	5,362	56,793

Annex 1

Summary of stakeholder comments

General comments

- A1.1 Stakeholder feedback on the Draft Annual Plan, published on 11 December 2007 for ten-week consultation, showed broad support for our proposed work programme for 2008/09. There was general consensus that our three-year strategic framework remained valid and that the identified top priorities were the right ones. One respondent asked for greater detail of how Ofcom arrived at the list of top priorities.
- A1.2 We are pleased that many stakeholders agreed with the ongoing relevance of our three-year framework and with our priorities for 2008/09. The top priorities proposed in the Draft Annual Plan were identified as a result of extensive analysis of market trends and wide-ranging internal discussion with Ofcom's Senior Management and Board. In addition, we sought input from all of Ofcom's advisory bodies early in the planning process to ensure we had taken account of all stakeholder groups and interests.
- A1.3 Several respondents highlighted the differences between the needs of business users and those of individual citizens and consumers. Some responses suggested that Ofcom focuses on individual citizen and consumer issues at the expense of business users. At the same time, another respondent was concerned that Ofcom was too focused on business interests.
- A1.4 Ofcom recognises the differences between the needs of individual communications users and those of businesses. We will continue working to address critical issues affecting both of these groups. In the final annual plan, we have highlighted that our definition of consumers includes business users. We consider business users in all of our projects where this is relevant, for example:
- our annual evaluation of the impact of the Telecoms Strategic Review explicitly considered the impact on business users as well as on individual consumers;
 - our ongoing business connectivity market review is focusing specifically on the business market; and
 - our work around next generation networks will seek to ensure that businesses consumers are able to access legacy services in any move to new network technologies.
- A1.5 Several respondents raised concerns over Ofcom's approach to prioritising competition issues, in particular in relation to market reviews, dispute resolutions and Competition Act investigations. One respondent suggested that we need to improve the efficiency of our Competition Act investigations. Another thought that Ofcom appeared to prioritise consumer issues over competition work.
- A1.6 Promotion of competition remains fundamental to Ofcom's strategic approach, as demonstrated by the five top priority areas under this element of the framework. We strive continuously to enhance the efficiency of our projects, and have specifically sought to mitigate the risk of unplanned work by reserving a share of our capacity for such tasks. It is important to recognise that Ofcom has a wide

range of duties in relation to both competition and consumer protection issues, as well as in promoting citizen interests. We will therefore always need to balance these important concerns, and revise our plans on an ongoing basis to address urgent issues in all of these areas. We will update stakeholders on any revisions to our plans via a detailed table of planned outputs published quarterly on our website.

- A1.7 Three responses asked for definitions in relation to public interest objectives and citizen interests. These stakeholders highlighted the importance of clarity in relation to these terms to ensure that regulatory strategies are targeted and measurable.
- A1.8 Ofcom has duties to further the interests of citizens in communications matters, and to further the interests of consumers in relevant markets. Our twin duties reflect the idea that we are all citizens and consumers – two distinct concepts where clarity is increasingly important as convergence raises new questions about serving citizen interests in the communications sector. Ed Richards discussed these issues at length in the Ofcom annual lecture last year, which identified key questions for citizen interest arising from convergence.⁷
- A1.9 As consumers, we participate in the marketplace, exchange goods and services, and generally look after what is good for ourselves - for example lower prices, choice and quality. Consumer interests are in most cases best served by promoting competition, while also ensuring adequate protection and empowerment in the market place.
- A1.10 As citizens our interests go far beyond what is good for us individually. We are participants in a democratic society, with rights and responsibilities established by Parliament and devolved administrations. This includes the right to access information in order to take full part in the democratic process – for example, access to a plurality of views in the media. It also includes rights to the services necessary for participating in broader social, economic, and cultural life of a society, and where lack of access would put us at an unfair disadvantage – for example, access to basic telephony.
- A1.11 While markets can go some way in promoting the interests of citizens, in many cases broader public interventions are required. These interventions have associated costs and are often in contrast to our interests as consumers. Ofcom derives its responsibilities in these areas from the Communications Act and other relevant statutes. Where this is not the case we work with the Government to determine public interest objectives relevant to specific policy areas.
- A1.12 Nevertheless, there is some degree of interpretation about Ofcom's duties in relation to citizen interest, and in our approach to delivering on these duties. Ofcom therefore needs to be as evidence-based, transparent and accountable as possible, and to seek a broad range of views when making policy decisions.
- A1.13 We recognize that it would be helpful to have a more detailed discussion on these issues and to seek stakeholder feedback. To enable this, we are planning to publish a discussion paper outlining Ofcom's interpretation of our duties towards citizens in the course of the year. We will welcome feedback from all of our stakeholders on this forthcoming paper.

⁷ Transcript is available at <http://www.ofcom.org.uk/media/speeches/2007/10/annuallecture>

- A1.14 Several respondents emphasised the importance of a coordinated approach to regulation, given the links between the different segments of the market that Ofcom regulates. Two respondents specifically suggested that we needed to take consistently into account developments in convergence throughout our work.
- A1.15 Set up to address the challenges of convergence, Ofcom places convergent developments at the centre of its strategic approach. Throughout our work we consider the impact of market changes in all of the historically distinct areas of regulatory intervention. To help address longer-term questions raised by convergence we will contribute actively to the Government's work via our engagement in the Convergence Think Tank. However, it is important to recognise that not all segments of the market are equally affected by convergence, and that many consumers still use stand-alone services – our approach needs to ensure that the interests of these groups continue to be met.
- A1.16 One stakeholder suggested that Ofcom should place more focus on environmental issues as part of its policy work, and that its strategic approach should include an element on sustainable development. It suggested that DEFRA guidelines on designated landscape areas should be taken into account when making policy decisions, in particular in relation to the visual impact of network infrastructure in national parks and areas of outstanding national beauty (AONBs).
- A1.17 Ofcom takes environmental issues very seriously. Since our creation we have sought to adopt sustainable practices whenever possible, and have carried out a number of initiatives in this area - for example, in increasing our energy efficiency and adopting a programme of recycling. As outlined in Section 4 of this document, we are currently developing a comprehensive approach to reducing the carbon footprint of our operations.
- A1.18 In relation to considering the visual impact of network infrastructure in national parks and AONBs, the Communications Act requires the Secretary of State to consider conserving the natural beauty and amenity of the countryside when setting any regulations which may affect the installation and maintenance of network infrastructure. While Ofcom has to be consulted before the Secretary of State makes any such regulations, Ofcom does not have explicit powers in this area.
- A1.19 Further, we recognise that environmental issues are of growing importance to citizens and consumers, and to the Government. This is an area that the Government may wish to address as part of future updates to legislation in the communications sector. Separately, we are reviewing Ofcom's own environmental impact as part of our work in 2008/09 as noted above.
- A1.20 One respondent called for more detail on deliverables, timescales and individuals responsible for particular areas to be included in the draft annual plan.
- A1.21 In our planning process we first develop and consult on a broad approach and high-level work programme, before we are able to finalise the detail of timing and outputs for specific projects. Alongside the final annual plan, we publish a table on our website containing descriptions of all our planned projects, details of outputs and the appropriate contact responsible for each output.
- A1.22 Several respondents commented on Ofcom's consultation processes. Two stakeholders said our consultations should allow enough time to respond. One

stakeholder said that Ofcom's publication of statements should be more timely, and that we should be more transparent in taking account of consultation feedback. Another stakeholder thought that the overall volume and length of consultations places a burden on stakeholders, and that consultation documents do not need to set out in detail the basic issues involved in decisions. One response suggested that we should explore online opportunities for stakeholders, in particular individual members of the public, to provide input.

- A1.23 On the basis of feedback received from stakeholders and Ofcom colleagues, we have improved and streamlined our consultation processes, as reflected in the guidelines we published at the end of 2007⁸. Ofcom's decisions affect people and organisations across the UK, and we need to be as transparent as possible in our decision-making process. We do this by providing all relevant evidence and making our documents accessible to the public to enable everyone to contribute their views. To support this we are increasing the number of documents we make available in plain language. Our simple web consultation response form enables all stakeholders to provide input via the Ofcom website.

Driving forward a market-based approach to spectrum

Digital Dividend Review

- A1.24 Respondents raised several questions in relation to the Digital Dividend Review. Two respondents highlighted the importance of the international context to this work. One suggested that we need to ensure that the UK position is not at odds with approaches taken elsewhere in Europe. Several responses raised issues around competition and access to spectrum, stemming from a market-led approach to the award. Some suggested that special provisions must be made to support not-for-profit groups, local operators and public sector bodies gaining access to the digital dividend.
- A1.25 In the light of all the evidence available, we have decided to take a market-led approach to awarding the digital dividend. This means that we will auction most of the spectrum in a way that allows users to decide how the spectrum should be used and to create the maximum flexibility and opportunities for different technologies and services. We believe that such an approach, supplemented by direct funding (where required) to reflect uses of value to society, is also best suited to delivering these different sources of social value and to maximising the total value generated by use of this spectrum.
- A1.26 Awarding the digital dividend as soon as possible will allow citizens and consumers to benefit from new and enhanced services with minimum delay. It is likely that some uncertainty will be associated with some uses at any point in time, given the ongoing pace of technological and market change in the sector, and postponing the award would not resolve this problem. At the same time, we recognise the benefits that a common approach to the use of this spectrum could bring, and we strongly support the non-mandatory and non-exclusive approach to European harmonisation being developed within the European Conference of Postal and Telecommunications Administrations. In contrast, it will be extremely difficult, if not impossible, to mandate a common approach to the use of the digital dividend across the European Union.

⁸ http://www.ofcom.org.uk/consult/consult_method/ofcom_consult_guide

- A1.27 We will address the ways of achieving our objective for the DDR through award design when we consult on detailed proposals in the spring.

Market-based approach to spectrum

- A1.28 Stakeholders asked several questions in relation to our broader work on implementing a market-based approach to spectrum. One stakeholder asked about the methodology behind Ofcom's estimate of the value generated by spectrum, and whether our statement on growing value contradicts data showing falls in communications prices. It also asked about Ofcom's approach to measuring the efficiency of spectrum. One response highlighted the need to allow adequate time for assessing the safety, socio-economic and environmental impacts as we move towards a market-based approach to spectrum. One response raised concerns about the level of UK interests in international policy development in this area. Finally, one stakeholder suggested that Ofcom needs to ensure future spectrum releases to promote the development of mobile broadband.
- A1.29 Ofcom periodically estimates the value that the use of spectrum is providing to the UK economy in the form of its contribution to national GDP. Broadly, this value is the sum of the producer and consumer surplus associated with spectrum use. For example, for cellular telephony the producer surplus is, for the most part, the profitability of the cellular operators, while the consumer surplus is the additional value consumers derive from using cellular telephony over and above their monthly fee. We last conducted this exercise in 2007⁹.
- A1.30 There is no contradiction between increases in value generated by spectrum and declines in prices. Most of the economic value comes from consumer surplus. This is the difference between what consumers pay and what value they receive from the service. So if prices go down then consumer surplus goes up. Also surplus goes up as more applications and uses are developed which consumers find useful. Finally, increases in consumer spend (overall or per capita) are not directly corresponded to prices. As shown in our 2007 Communications Market report, consumer spend on telecommunications increases as a result of increased use of services, while prices continue to fall.
- A1.31 Clearly, there is a balance to be struck over the speed of introduction of change. If this change is too slow then the benefits that will result from it will be delayed or in some cases lost. If it is too fast then there is a risk of misjudgement in the process. Working with stakeholders we are constantly seeking input on this process and taking the time to review areas of concern. In general, most of our reforms are taking longer than we originally anticipated, precisely because we are carefully considering all areas of concern and only proceeding when sufficiently detailed analysis has been conducted.
- A1.32 Ofcom has duties to represent the UK in international bodies such as the ITU and commits significant resource to this. Equally, Ofcom is a public body and is constantly striving to deliver excellent value for money to those that have to pay for it. This clearly requires a balance in terms of, for example, the number of representatives sent to international meetings. We believe that we are sending an adequate number of representatives to these meetings – for example at the recent ITU WRC conference we achieved nearly all of our objectives. As far as

⁹ http://www.ofcom.org.uk/research/radiocomms/reports/economic_spectrum_use/

we are aware, there is no evidence of detrimental outcomes as a result of insufficient representation.

- A1.33 One of the key objectives of our spectrum management and release programme is the promotion of competition and of new and enhanced services. We believe that the combination of key spectrum release, spectrum liberalisation and the introduction of market mechanisms will provide the best possible environment for the emergence of new services such as mobile broadband in whatever form the market decides is most appropriate.

Promoting competition and innovation in converging markets

Next generation access networks

- A1.34 Several respondents welcomed Ofcom's engagement in next generation networks but called on Ofcom to provide further clarity surrounding its regulatory approach to next generation access networks and next generation core networks. In addition, several respondents highlighted some more specific issues:

- Ofcom should take a more interventionist approach to next generation access;
- It would be beneficial for Ofcom to place less emphasis on reducing prices, and give communications providers more freedom to set prices;
- Openreach should be required to provide a fit-for-purpose sub-loop unbundling product;
- The role of mobile broadband in current and next generation of broadband access networks should be considered; and
- Ofcom's regulatory framework should fully encompass competition at the retail as well as the infrastructure level, and end-users on NGA networks should not be locked in to particular retail services.

- A1.35 We consulted on potential regulatory approaches to next generation access in our Future Broadband consultation at the end of 2007. We received wide-ranging feedback, highlighting the increasing interest in, and understanding of, the issues posed by next generation access. We are planning to publish a statement further outlining our approach to next generation access in Q2. In this statement, we will take into account the responses to the Draft Annual Plan, and Ofcom's ongoing work in this area, including:

- continued promotion of competition in next generation access services - as we outlined in our consultation, we consider retail and wholesale competition fundamental to delivering consumer benefits;
- the most appropriate balance between market-led investments and regulatory and wider public policy intervention in areas where the market may not deliver;
- the important role that wireless services have to play in delivering access to broadband for certain customers and applications in a wider environment of multiple-access networks and technologies; and

- the most suitable wholesale access products and prices to promote competition while retaining incentives for efficient investment in new networks.

A1.36 This work will include engagement with and contributions to BERR's independent review.

Next generation core networks

A1.37 One respondent raised concerns about the withdrawal of deterministic private circuits in a move from current to next generation networks, and suggested that securing clarity from BT about its long-term intentions with respect to next generation networks, supported by facts and figures, should be a key work area for 2008/09.

A1.38 As we outlined within the Draft Annual Plan, preparing for next generation core and access networks is one of Ofcom's key priorities for 2008/09. This year is likely to see significant development in this area, especially in next generation core networks. We will seek to make sure that consumers and business are suitably informed of the potential impact on services and features following the move to core next generation networks. We will engage with operators and their customers to explore the implications of these changes. We will also consider the implications of these networks for the competitive dynamics of the UK communications sector.

A1.39 Another respondent wanted to see Ofcom move forward with the debate around how BT's 21st Century Network (21CN) products should be utilising Metallic Path Facility (MPF) to ensure a level playing field for competing next generation networks. The same respondent also believed there was an urgent need to address how call termination charges should be regulated in an NGN world.

A1.40 BT's planned investment in its 21CN next generation core network is one of the key developments in core NGNs for the UK for the coming year. As part of our work programme on fixed telecoms and next generation networks we will be monitoring and engaging closely with BT on its 21CN deployment plans. The activity will ensure that this project continues to deliver on BT's obligations for equivalence of inputs obligations as well as the requirement not to foreclose network access under the Undertakings. Our work will also consider the other market and regulatory challenges posed by next generation core networks, including IP interconnection and termination charges.

Mobile

A1.41 Respondents welcomed the mobile sector assessment but highlighted some specific issues to consider:

- One highlighted the importance of the review not placing an undue administrative burden on the mobile operators;
- Another urged Ofcom to ensure that there is sufficient resource for the mobile sector assessment and that it can provide a robust regulatory base. This respondent also hoped that this work will provide a strong platform for the evolution of a consistent approach to promoting appropriate and sustainable competition in the mobile broadband sector; and

- One respondent enquired about whether the regulatory barriers for new market entrants would be considered in the review.

- A1.42 The mobile sector assessment forms part of one of the top priority policy areas for 2008/09: developing Ofcom's approach to mobile. As a top priority area, we will work to ensure that this area is adequately resourced to deliver our stated plans. One of the main objectives of the review is to consider the possible approaches to the future regulation of the mobile communications sector including the scope for the promotion of competition and the reduction of regulation. We plan to consider a broad range of issues in the assessment including the implications of continuing convergence and the implications of the continued growth of mobile services for competition more generally. Mobile broadband will be considered as a part of this.
- A1.43 An additional point about mobile, raised by one respondent, was that Ofcom should initiate a review of its numbering policy.
- A1.44 As part of our wider work programme in the competition area we are planning to review the mobile numbering plan and domestic numbering policy arrangements during 2008/09.
- A1.45 One respondent highlighted the importance of considering differences in mobile availability, and suggested that Ofcom should examine what can be done to reduce these.
- A1.46 Our work on access and inclusion is considering mobile availability issues across the UK. However, we note that unlike basic fixed telephony, mobile services are not currently in the scope of the Universal Service Directive.

Undertakings

- A1.47 One respondent asked Ofcom to supply timely information on the various strands of the BT Undertakings implementation in a format accessible to and understandable by all citizen and consumers.
- A1.48 We published our latest annual evaluation of the impact of the Telecoms Strategic Review in December 2007. In that evaluation we clearly explained the Openreach products that form part of the BT Undertakings and highlighted the impact that availability of these products has had on the consumer experience in the fixed telecoms market. In addition, the Equality of Access Board, which was established as part of the Undertakings, regularly reports on BT's progress in delivering its Undertakings.
- A1.49 Two respondents expressed the belief that the Undertakings are in need of significant adjustment or overhaul to ensure that they reflect the latest market and technological developments.
- A1.50 We will continue to review the overall effectiveness of the Undertakings in delivering services to other communications providers and in supporting the development of next generation networks and products.
- A1.51 One respondent highlighted that there is an ongoing need for Ofcom to require a more rapid and competent product development process within Openreach such that key products (e.g. a business grade LLU product) are launched by Openreach as soon as possible

- A1.52 Ofcom identified Openreach's product development process as an area of concern in the latest evaluation of the Telecoms Strategic Review. Ofcom will continue to monitor the process improvements that Openreach is planning to make in this area in order to establish a process that delivers products in a timely manner and allows Openreach to develop a comprehensive set of products to meet the needs of its customers beyond the initial product set established within the Undertakings.
- A1.53 Another respondent argued that Ofcom should ensure a successful outcome of work to develop Service level Agreements and Guarantees (SLAs/SLGs) by carefully monitoring that Openreach implements the new requirements in an appropriate fashion and that the new requirements have the desired impact on Openreach's performance.
- A1.54 During 2008/09 we will continue to focus on SLAs and SLGs ensuring that Openreach's incentives are better aligned for the delivery of high quality services. Ofcom plans to review the effect of the changes to Openreach's service level agreements and compensation arrangements after the changes have been in place for six months.
- A1.55 One respondent suggested that Ofcom needs to commit to carrying out the Openreach financial framework review as soon as possible.
- A1.56 Ofcom's review of Openreach's financial framework was designed to consider the regulatory controls impacting on Openreach to take account of the formation of Openreach, other recent changes in the market and any implications arising from next generation services. We recognise the importance of this review to the telecoms industry and have given it a high priority. We expect the first public consultation on this in spring 2008. The project will factor in the issues under consideration in our consultation on next generation access.

Business connectivity market review

- A1.57 One respondent emphasised the need to conclude the business connectivity market review as soon as possible to provide certainty to all market players. In particular, Ofcom needed to ensure that the price control consultation is concluded on an expeditious basis. Another respondent was concerned that the timescales for completing the business connectivity market review are tight and that this should not be allowed to compromise the quality of the work carried out.
- A1.58 We are currently planning to publish a statement setting out the conclusions of the business connectivity market review during Q1 2008. We are also planning to publish a consultation on the assessment of provisions of charge controls for BT's wholesale leased lines during Q1 2008, with a view to finalising the new charge controls before the end of September 2008.

Number Translation Services (NTS)

- A1.59 One respondent asked for clarity about the timing of the review of the 0845 calls and the review of NTS retail uplift charge controls. Another respondent suggested that Ofcom should think again about its 0870 policy in the light of changes in the NTS landscape.
- A1.60 The planned review of 0845 calls is currently on the waiting list of projects for 2008/09 and we hope to commence work on this review during the plan year.

Ofcom does expect to review the NTS retail uplift charge control before the expiry of the existing control, and to commence work on this towards the end of the 2008/09 year.

- A1.61 The implications for the planned 0870 reforms of recent developments in respect of pre-call announcements will be considered in a forthcoming consultation document.

Regulatory accounting

- A1.62 Two respondents urged Ofcom to review the way it makes use of BT's regulatory accounting information.
- A1.63 Ofcom recognises the importance of a "fit for purpose" reporting regime and has an ongoing regulatory financial reporting programme aimed at improving the quality, relevance and timeliness of financial information. Ofcom also informally engages with stakeholders (including BT) in transparency workshops and bilateral discussions aimed at improving users understanding of the regulatory accounts. We are planning to publish a consultation document relating to this subject early this year.

Broadcasting

- A1.64 One stakeholder suggested that Ofcom's main focus in assessing competition issues in broadcasting is on the pay-TV market, and that we do not sufficiently consider competition in free-to-air (FTA) television services.
- A1.65 There are a number of important issues in relation to FTA competition issues that Ofcom will be considering in 2008/09. The main area of competitive concerns in FTA services is in the advertising market. Ofcom will be working closely with the Office of Fair Trading on its review of the current Contract Rights Renewal (CRR) remedy.
- A1.66 Another important area of work is the market impact assessments (MIAs) of new TV and radio services developed by the BBC. The purpose of an Ofcom MIA is to assess the likely impact of the proposed services on other products and services which are substitutes or complements to the proposed BBC service. We have already carried out assessments of the iPlayer and of the Gaelic Media Service, and made recommendations to the BBC Trust to ensure that these services do not have a negative effect on competitive prospects in the television market. We will continue carrying out these assessments in the future as appropriate.
- A1.67 Finally, while our ongoing pay TV market investigation focuses on pay issues, we are also considering the role of Freeview in DTT in the context of this work.

Delivering public interest objectives as platforms and services converge

Public Service Broadcasting

- A1.68 Several responses underlined the key importance of considering future models for public service broadcasting (PSB), and asked questions in relation to the PSB Review. One respondent argued that Ofcom is going beyond its remit in considering the role of new media in PSB delivery. Another stakeholder suggested that Ofcom should assess the impact on radio of PSB policy options,

and should assess funding options for the radio sector. In addition, stakeholder feedback at our annual plan events re-enforced the importance of considering the specific needs of the UK Nations and regions as part of the PSB Review.

- A1.69 Our second review of public service television broadcasting is being carried out in accordance with the Communications Act 2003 (the Act). The Act requires us to report on the extent to which the public service broadcasters have fulfilled the purposes of PSB, and to make recommendations with a view to maintaining and strengthening the quality of PSB in the future.
- A1.70 As such, the review considers the extent to which the public service broadcasters, as defined under the Act, are delivering the purposes and characteristics of PSB. However, in making recommendations for maintaining and strengthening the quality of PSB in the future, the review needs to take into account the wider context within which public service television broadcasting is being delivered, and how changes in the way that TV content is distributed and consumed are likely to affect the current models going forward. This is necessary for assessing the case for continued intervention in the delivery of TV content to secure the public service purposes and for considering whether and how the growth of new ways of delivering content might create new opportunities for achieving the PSB goals.
- A1.71 For these reasons, we consider it important that the Review takes account of a wider set of electronic communications services that could, and in some cases already do, make a contribution to PSB purposes (despite their not being formally required to do so) and that may become increasingly substitutable for traditional TV, including user-generated content, video file sharing services, videogames, interactive services, social networking and a variety of other websites. The role of radio is also being taken into account in this context.
- A1.72 However, it is outside the scope of the PSB review to make recommendations about the future of radio including whether similar funding options should also be proposed for the radio sector.
- A1.73 The PSB Review will consider in detail the delivery of public service content for the UK nations, regions and localities. This will involve, among other things, consideration of the purpose, benefit and sustainability of plurality within those services.

Local television

- A1.74 One stakeholder raised a range of questions in relation to local television, suggesting that Ofcom should place more emphasis on considering citizen and consumer interests in local TV. It argued that existing public service broadcasters occupy a disproportionate role in television services, and that Ofcom should consider this issue in the PSB review. It raised concerns about the ability of local operators to gain access to the DDR spectrum, suggesting that existing DTT allocations should be reviewed, and that a share of PSB capacity should be opened up to new entrants, including local television players. The response also suggested that Ofcom should delay re-organisation of DTT multiplexes until after the PSB review, arguing that this would allow time for more certainty on future technologies to emerge.
- A1.75 Ofcom recognises the potential social value of local TV and its prospects will be considered in general terms within the context of the PSB Review. This will be

part of Ofcom's overall examination of the delivery of public service content for the UK nations, regions and localities. However, DTT is not the only means to deliver local content. Ofcom recognises that other platforms, including broadband, may be suitable for delivery of local content.

- A1.76 Our work on DDR spectrum considered arguments for reserving DDR capacity for local television. We have concluded that this kind of direct intervention was not justified, due to high opportunity cost, and because it would not ensure that local TV is economically viable. It would also reduce incentives for efficient use of spectrum. However, to assist the development of local services, we decided that auction design should be such as to enable local TV providers to secure smaller blocks of spectrum to provide services on a local basis. Now that Ofcom has set out its position on allocating spectrum for local TV as part of the DDR work, we do not expect to revisit this issue 2008/09.
- A1.77 It would not be justified for Ofcom to assign a share of existing PSB capacity on DTT to new entrants. Existing allocations were made as a result of a competitive process; is not within Ofcom's gift to reallocate this capacity, although it may be within the gift of Government. We note that there is a market for capacity on DTT through which local TV operators could, if they wished, secure broadcast capacity. We note questions raised on the timing of DTT reorganisation and will cover these issues in the final statement of the Future of DTT project planned for publication by Q1.

Radio

- A1.78 Several stakeholders raised questions in relation to Ofcom's work on the future of the radio sector, and in particular about options for local radio and plurality of provision in local services. One response raised a number of issues regarding the reform of broadcast advertising regulation and of some commercial aspects of the Broadcasting Code.
- A1.79 Ofcom published its final statement on The Future of Radio in February, which included new localness guidelines, simplifying regulation for the commercial radio sector while protecting local content for listeners. We wrote to each analogue commercial radio licensee regarding the changes and the simplification of Formats (as outlined in Ofcom's November 2007 statement). Licensees are able to submit a request to Ofcom if they wish to change their hours of local programming, co-locate or share programming. We have already received many such change requests, and in the coming year we will continue to implement the new regime.
- A1.80 "The Future of Radio: the next phase" statement in November 2007 set out our recommendations to Government for a simplification of current radio ownership rules. We believe that plurality of provision will continue to be important for local radio, and we have stated that we will work with Government to help develop a new set of ownership rules for radio.
- A1.81 We have noted the points made by the stakeholder in relation to advertising regulation, and will take these into account as and when appropriate policy initiatives arise during the year.

Access and inclusion – general

- A1.82 Many stakeholders welcomed the designation of access and inclusion work as a top priority for 2008/09. One stakeholder was interested in our approach to taking forward this work, and whether significant resources will be devoted to making improvements. A number of respondents also called on Ofcom to review the Universal Service Obligation (USO), including its funding, and to consider the inclusion of broadband in this obligation. One stakeholder specifically suggested that the government needs to consider offering funding for broadband, for example, via a competitive tendering scheme to provide higher speed access where not otherwise economical. Another stakeholder thought that we should focus on promoting UK film as an incentive to take-up of new media. One stakeholder suggested that Ofcom's goals in different areas may contradict each other – for example, that increased competition and market-based approach to spectrum may have adverse consequences for access and inclusion goals.
- A1.83 Designating access and inclusion work as a top priority means that this area of work is particularly critical in 2008/09. Our plans in this area are set out in Section 3 of this document, and in more detail in The Consumer Experience – Policy Evaluation document published in November 2007. Ofcom will ensure that we have sufficient resources allocated to this area.
- A1.84 Ofcom completed a review of the implementation of USO in 2006. We expect the European Commission to consult on the future scope of USO during 2008 and Ofcom will contribute to the UK's response. We note the potential benefits of public schemes for the provision of broadband where the market would not otherwise deliver. However this is something for the Government and relevant local authorities to consider. While we note that UK film and other content may play a role in encouraging take-up of new media, our work on access and inclusion focuses primarily on addressing barriers to take-up, such as high cost or lack of availability. Finally, we fully recognise that different policy goals in many cases require different approaches. For example, while promotion of competition supports many consumer interest objectives (such as low prices, high quality and choice), competition alone is not always sufficient to ensure consumer protection and empowerment, and to deliver on access and inclusion goals. Our work will seek to identify the areas where access and inclusion goals are not met by the market, and to consider possible approaches to removing or reducing these barriers.
- A1.85 One respondent raised concerns about the potential for growing differentiation in the levels of access and inclusion as a result of convergence. It suggested that Ofcom should track differences in access to technologies, and assess the implications of these differences for people's ability to participate in broader life of society, for example in work, education and civic activities.
- A1.86 Ofcom has a comprehensive programme of research, assessing differences in access to, and use of, digital technologies among different groups of citizens and consumers. This includes an ongoing quarterly survey tracking the use services by people throughout the UK, as well as in-depth research examining these issues as part of our media literacy work programme. As part of this work we survey people's use of new media for other activities - for example, our media literacy audit examines use of the internet for learning, participation in political campaigns online, contributions to issue websites and blogs. Our ongoing tracker also looks at use of the internet for educational, informational, and entertainment

purposes. We regularly publish our findings as part of our market report series, as well as reports focusing on media literacy.

Access and inclusion for disabled users

- A1.87 One stakeholder highlighted the importance of addressing access and inclusion barriers among disabled users, in particular, in relation to cost and accessibility. Another response asked for Ofcom to continue supporting the needs of disabled users in the EU policy-making, in particular in relation to the review of legislation on usability of telecoms equipment and on the review of the Universal Service Directive. One response asked Ofcom to refer to its own Disability Equality duties.
- A1.88 Our work in 2008/09 will consider access and inclusion barriers among disabled users in-depth through a number of activities. For example, we will carry out research on barriers to take-up and use of technology among blind and partially sighted people. We previously did a similar piece of work about deaf people that was published as part of The Consumer Experience 2007 report. We will continue to work with the Government and stakeholders on improving usability, and will hold a public event to discuss usability issues (involving stakeholders and Government) in June.
- A1.89 We will also actively contribute to the EU-level work in areas which fall within our remit, and will provide input to the review of usability legislation and of the Universal Service Directive. We will engage with Government to improve accessibility for end users of telephone services as part of the EU Framework Review (the review of the Electronic Communications Framework).
- A1.90 Under the Communications Act 2003, Ofcom has specific responsibilities for the promotion of disability equality. These responsibilities mean that in performing its duties Ofcom needs to:
- have regard to the needs of persons with disabilities, of the elderly and of those on low incomes;
 - promote equality of opportunity in employment and training for disabled people, and other equality groups, in television and radio; and
 - draw up a code giving guidance to promote enjoyment of television by people who are deaf, visually impaired or both; ensure the inclusion of assistance for the visually impaired with the teletext service; and draw up a code of practice for electronic programme guides.
- A1.91 We take action to address disability equality throughout our activities. In November 2006 we published our Disability Equality Scheme, as required by the Disability Discrimination Act 2005, which set out a three year action plan of work on equality for disabled people as it relates to Ofcom's role as the UK's electronic communications regulator, and as an employer. We continue to regularly monitor progress in this area.

Training in telecoms

- A1.92 One stakeholder proposed that there should be a regulatory requirement for employers to support training in the telecoms sector as it is required to do in the broadcasting sector.

A1.93 The Communications Act 2003 requires Ofcom to promote training and development across the broadcasting industry, and to ensure that the arrangements made by broadcasters are effective. However, we do not have any such express powers in relation to the telecommunications sector. This is something that the government and the parliament may wish to consider in future revisions to communications legislation.

Empowering citizens and consumers and improving regulatory compliance where necessary

Media literacy

A1.94 Stakeholders welcomed the inclusion of media literacy as a key priority for 2008/09. Several respondents asked for more detail on planned activities in this area. Two stakeholders asked about our approach to setting targets and measuring the success of our work to promote media literacy.

A1.95 Our plans to promote media literacy in 2008/09 include several strands of activity:

- We will pay particular attention to the critical areas identified in our media literacy research: supporting parents in using content management tools such as internet content 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.
- We will publish the second Media Literacy Audit in the Spring with reports focusing on adult and children's media literacy and those of people from Ethnic Minority Groups.
- In May we will hold an international media literacy research forum in London to bring together the leading researchers in the field to encourage the sharing of best practice in understanding media literacy.
- We will support the industry in the promotion of the recently published good practice principles for the provision of information about audiovisual content to consumers. We will also encourage online safety software companies to submit their products for testing against the British Standards Institute standard and to encourage them to make parents aware of the benefit such software can bring to managing their children's activity online.
- We will work with partners to deliver opportunities for adults to gain an understanding of the benefits and risks of going online.

A1.96 The extent of media literacy varies across platforms and amongst different sections of society. In the formal education system relevant authorities set standards and measure performance. We do not think it appropriate for Ofcom to take that role. Our role is to raise awareness of the issues, help facilitate access to information and promote opportunities for people who have particular learning needs. For example, our research helps identify key skill gaps and direct stakeholders to supporting people in acquiring the skills they need.

A1.97 As we noted in last year's annual plan, measuring the impact of regulation is often difficult due to the nature of regulatory activity generally, and because of the rapid pace of change in the sectors we regulate. Nevertheless, we seek to measure our effectiveness in a number of ways, and will continue working on

developing new tools to do so. In media literacy measuring outcomes is difficult. While we monitor changes in behaviour through a comprehensive programme of research, we cannot attribute any specific changes to our activities alone as opposed to other influences and the work of other stakeholders. Our ongoing research provides an indication of the overall extent of media literacy and highlights any specific areas where action may be needed.

Consumer information and switching

- A1.98 Many respondents welcomed Ofcom's ongoing focus on consumer protection. Two respondents commented on the importance of taking further our work on migrations and switching. One raised concerns about the length of time taken to develop a single migrations process. Another respondent highlighted the switching of email addresses as a possible barrier to switching internet service providers. One respondent was disappointed that Ofcom will not develop its own price comparison tool but was re-assured by the accreditation scheme plans.
- A1.99 Migration and switching is a key area of work for us, and we have been engaging closely with the industry in developing policy in this area. It is important that regulations and processes are in place that do not inhibit to consumers' ability to switch. This is why we are reviewing existing approaches to migrations, switching and mis-selling across transferable communications services. We published the Deloitte report on the costs and timelines for moving to a single migrations process for transferable communications services on 17 January 2008. We have invited comments from stakeholders and intend to follow up with a formal consultation in which we will set out our next steps.
- A1.100 Switching email addresses is not an area of concern which has been raised with us previously in a substantive way in the context of potential obstacles to switching. Indeed, we are aware that there are a number of steps which consumers can take themselves, either through setting up portable email addresses or keeping their old broadband supplier's email address when they move to a new broadband supplier. However, we will, continue to monitor this particular issue.
- A1.101 As set out in Ofcom's Consumer Policy statement published in December 2006, whilst developing a single source of price comparison information has benefits, for example simplicity and clarity for consumers, the innovation displayed by providers of comparative information is to the advantage of consumers. This can be served best by a scheme open to multiple providers. We were also aware that several new providers of comparative information were keen to apply for accreditation by Ofcom and did not therefore wish to foreclose the market for quality-assured information by limiting accreditation to a single provider. We believe that a new accreditation scheme, offering consumers quality-assured price comparison services for both individual and bundled communications services - which is widely promoted by Ofcom and which consumers are advised to use (e.g. via the Ofcom website) – is the most effective means of ensuring wide availability of independent price comparison information. We are also keen to see price comparison information made available to consumers who are not online e.g. over the phone or by encouraging newspapers to reproduce comparative information.

Supporting the evolution of the legal and economic frameworks

- A1.102 One respondent called on Ofcom to engage closely with the European Commission's Communication on Creative Online Content and the issues of intellectual property and copyright theft as raised in the Communication.
- A1.103 As part of Ofcom's engagement in the development of new EU legislation, we will be actively addressing the EU content online initiative, and will as part of this put forward proposals as necessary in areas which fall within our remit.
- A1.104 One respondent called on Ofcom to ensure that a consistent regulatory approach between different types of networks is maintained.
- A1.105 Ofcom strives for consistency of regulation whenever possible; our approach to regulation of networks follows the requirements set out in the EU Framework for Electronic Communications. This requires us to define relevant markets based on a number of tests, and to apply regulatory instruments where we have identified significant market power in these markets. So while our approach to applying regulation is entirely consistent in our approach across markets, the regulatory instruments used may vary in each market.

Reducing regulation and minimising administrative burdens

- A1.106 Several respondents suggested caution for Ofcom in the process of reducing regulation. One pointed towards Ofcom ensuring that market conditions are sufficiently mature and competition in the market is sustainable before removing ex-ante regulation. Two respondents suggested that when reducing regulation, care needs to be taken that Ofcom can still fulfil its duty to citizens and minority groups are not left out when matters are left to the market.
- A1.107 The impact of decisions on citizens and consumers are a central concern for Ofcom. As part of any impact assessment the effects of any changes on citizens and consumers are explored. Any proposals for the removal of regulation will be carefully assessed to ensure no adverse effects for citizens and consumers, including minority groups occur. Ofcom will only consider removing ex-ante regulation after a thorough market review in which sufficient evidence is gathered and an impact assessment is conducted.
- A1.108 One respondent believed there is scope to reduce the burden of prescriptive regulation represented by detailed mandatory guidelines for codes of practice, such as those required under General Condition 14. Another stakeholder urged Ofcom to ensure that work on the review of General Conditions is not delayed.
- A1.109 We are planning to publish a consultation document on our review of General Conditions during 2008/09.

Maximising our impact on international policy development

- A1.110 One respondent asked how Ofcom's priority of maximising impact on international policy development will encourage collaboration with global developments in order to achieve greater consistency in seamless international services. The same respondent further highlighted that the interests of citizens and consumers may be significantly different to those of business users in an international setting.

A1.111 Ofcom has an explicit obligation to represent the UK in the ITU and CEPT. We are also actively involved in policy initiatives at European level that will have impact on our ability to fulfil our duties toward citizens and consumers, including business consumers. Ofcom is working closely with other national regulatory authorities via the European Regulators' Group to deliver a more consistent regulatory approach across Europe. We will continue work to support the international co-ordination dimension of key policy projects.

A1.112 We are aware that the interests of business users and citizens and consumers are not always aligned, but will ensure both interests are represented in our international engagement. One initiative we have been taking forward with the ERG and the European Commission that is particularly important to businesses, is the reduction of data roaming rates in the EU. We are concerned about the effect of these rates on businesses, which increasingly depends on connectivity and in particular mobile connectivity and are working to improve this.

Service delivery

A1.113 One stakeholder expressed concern about the effect of pirates on radio reception in several urban areas, and suggested that Ofcom should develop procedures to encourage the public to report interference.

A1.114 Although not specifically identified in the annual plan, interference to broadcast radio is a constituent part of our work on preventing spectrum interference, as described in Section 4 of this document. Members of the public are encouraged to report cases of harmful interference to Ofcom via a single phone number as well as email reporting facilities on our website - Ofcom currently handles around 200 such reports each week. We also work with legitimate stations to publicise these issues and to encourage the public to forward complaints to Ofcom. Over the next year we are exploring further options such as Crime Stoppers to be more active in this area.