



# Ofcom's Annual Plan 2005/6

Consultation Document

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## Section 1

# Foreword

### Introduction from Ofcom's Chairman and Chief Executive

- 1.1 Just over two years ago, a small team began the process of preparing for Ofcom. A year ago we completed the task of bringing the existing five regulators together and began work on a substantial programme of ongoing and new activity. In large part this reflected the additional duties which Parliament had given Ofcom under the Communications Act 2003.
- 1.2 We have now created an organisation which has over 25% fewer people than the previous regulators and which has lower operating costs. Ofcom's budget for 2004/5 was, on a like-for-like basis, 5% less than the combined budgets of our predecessors and during the year we reduced our costs by 5%. During 2005/6, we aim to reduce our costs by a further 5%, demonstrating our commitment to delivering professional and effective regulation which represents good value for our stakeholders.
- 1.3 Our first full year of operation has seen a wide range of activities:
  - We continued the work started by the previous regulators, in particular, the implementation of the new EU framework for telecoms. The amount of work carried over was substantial, particularly as in 2003 our predecessors rightly deferred decisions which could have pre-empted the approach which Ofcom might wish to take.
  - We fulfilled our obligations under the Communications Act to review and revise significant parts of the regulatory framework, including the codes governing broadcasting standards and independent production.
  - Through our major reviews of spectrum, public service broadcasting and telecoms, we have begun to map out the strategic direction we will follow to overhaul and renew the approach to regulation across the communications sector.
  - Charting the course towards digital switchover has been a key priority, as has been the promotion of competition and innovation in the supply of broadband services. To help develop commercial radio we introduced a more flexible licensing process and published a comprehensive report on DAB digital radio. Spectrum trading was introduced, on target, at the end of 2004, and we have revised the spectrum administrative pricing system. We contracted-out broadcast advertising regulation to the Advertising Standards Authority, the first major co-regulatory initiative to be introduced by Ofcom. And we removed the rules prohibiting the joint selling of airtime by the large TV sales houses.
- 1.4 In carrying out all our work, we have engaged constructively with the full range of our stakeholders throughout the UK, through consultations, seminars, and the input of our advisory committees and panels. Figure 1.1 sets out some of our key activities during 2004/5.

**Figure 1.1 Key activities in 2004/5**

Strategy/Research	Policy	Competition	Operational
Public Service Broadcasting review	Review of wholesale broadband prices	Contract Rights Renewal	Co-regulation of broadcast advertising
Telecoms strategic review	Setting up the Telecoms Adjudicator to make LLU work	Adjudicator	New radio licensing process
Spectrum Framework review	Spectrum trading and liberalisation	Timely Casework (targets achieved in 100% of cases)	Spectrum trading implementation
Radio review	Revised Number Translation Services Framework	BT Together investigation	Tetra development
Digital TV switchover project	New broadcasting standards code	Carrier pre-selection	Enforcement to stop radio and TV interference
Communications Market Report 2004	Independent production code	Mobile Call Termination	Pirate radio enforcement
Extensive programme of market and audience research		Voice over broadband	Facilitating new technology (e.g. rural wireless broadband)
		Leased lines competition	... and services (e.g. Community Audio Distribution)
		Streamlined complaints and compliance process	

- 1.5 2005/6 now marks the start of a three-year programme of delivery and this change of emphasis is reflected in our draft outline plan for the next year of Ofcom's work. We will implement the conclusions of our first year strategic reviews, with a detailed programme of work to develop a new regulatory framework for telecoms and new licence conditions for ITV1 and Five. We will continue to promote competition and open markets to new entrants, with significant releases of new spectrum being a key feature of this work. We will prepare for further change, for example, by examining how digital platforms and services are likely to evolve and the implications for regulation, including regulatory withdrawal. Where markets do not deliver the outcomes that society demands – and there is a clear public interest – we will take action to protect the interests of citizens and consumers. At the same time, we will not lose sight of the need to reduce or withdraw from regulation wherever this is appropriate.
- 1.6 Above all, we recognise we are working in a sector which is undergoing significant and rapid change. The communications sector has an enormous impact on our everyday lives, on our culture and society, and on the competitiveness and performance of the UK economy. Against this backdrop, the risk for a regulator is to be pulled in multiple directions by different pressures and events. It is vital, therefore, to have a clear sense of direction and a plan.
- 1.7 Our guiding principles over the next three years will continue to be those we set out 18 months ago in the early days of Ofcom, in particular, a bias against intervention, but a willingness to intervene firmly, promptly and effectively where required. When we do intervene, our aim will be to help all citizens and consumers, and the UK communications sector, benefit from the huge opportunities for innovation and competition presented by this changing world. Nonetheless, we understand the limits and potential costs of regulation in such

a fast moving environment, so will renew our efforts this year, and in subsequent years, to pull back from intervention.

- 1.8 The object of this consultation is to enable all our stakeholders to understand the direction we are planning to take, and seek their views both on our overall direction and the priorities we have identified. In tandem with this written consultation we will be holding a series of events around the UK to listen to your views. More details will be available on our website, but the events will take place on the following dates:

7 February	Edinburgh
8 February	Cardiff
9 February	London
23 February	Belfast
24 February	Leeds

- 1.9 Our outline plan is the product of an internal process which has involved all the groups in Ofcom. Input has also been obtained from Ofcom's Board, Content Board, Consumer Panel, Advisory Committees for the Nations and Regions, the Advisory Committee on Older and Disabled People and the Spectrum Advisory Board. We now look forward to receiving views from the full range of our stakeholders.

David Currie (Chairman) and Stephen Carter (CEO)

## Section 2

# Our approach to regulation

- 2.1 Our overall approach to regulation is anchored in the statutory framework created primarily by the Communications Act 2003 ('the Act')<sup>1</sup> and will continue to be guided by our regulatory principles. We will operate with a bias against intervention, but will intervene firmly, promptly and effectively where required. The priorities we set will reflect the importance of encouraging further growth, competition and innovation, which will benefit citizens and consumers through new and improved products and services. But the public interest cannot be delivered entirely by markets, so as well as promoting competition, action will be needed in certain areas to protect citizens and consumers. To provide everyone with a greater understanding of how we see our role evolving, we are proposing a three year strategic approach, which sets out our broad direction of travel, and some key priorities for the next three years.

### The statutory framework

- 2.2 The Act provides the framework within which Ofcom operates. In carrying out our functions, our principal duty is to further the interests of citizens and consumers, where appropriate by promoting competition.
- 2.3 The Act specifies certain things we must do to fulfil this duty. These fall into 6 main areas, which are shown in figure 2.1:

#### Figure 2.1 Communications Act requirements

Ensure the optimal use for the electro-magnetic spectrum

Ensure that a wide range of electronic communications services – including high speed data services – is available throughout the UK

Ensure a wide range of TV and radio services of high quality and wide appeal, throughout the UK

Maintain plurality in the provision of broadcasting

Provide audiences with adequate protection against offensive and harmful material

Provide audiences with adequate protection against unfairness or unwarranted infringements of privacy

<sup>1</sup> Ofcom is subject to a wide range of obligations in the Communications Act 2003 and other Acts such as the Northern Ireland Act 1998. In this draft Plan, Ofcom sets out what it plans to do in the forthcoming year, subject to the need to comply with such obligations when exercising its powers. In outlining our proposed programme of work for 2005/6 we do not necessarily make specific reference to the way in which our work will fulfil those obligations. However, in carrying out next year's programme, our published documents will refer specifically to the relevant statutory provisions and show how our obligations are being fulfilled.

## Ofcom's regulatory principles

- 2.4 In carrying out our work we will continue to be guided by the regulatory principles which we published last year in one of our first public statements. This will help to ensure a coherent and predictable approach to regulation, which we recognise is very important to our stakeholders. These principles are set out in figure 2.2

**Figure 2.2 Ofcom's regulatory principles**

<b>When we regulate</b>	<b>Ofcom will operate with a bias against intervention, but with a willingness to intervene firmly, promptly and effectively where required.</b>
	Ofcom will <b>intervene where</b> there is a specific statutory duty to work towards a <b>public policy goal markets alone cannot achieve.</b>
<b>How we regulate</b>	Ofcom will always seek the <b>least intrusive</b> regulatory mechanisms to achieve its policy objectives.
	Ofcom will strive to ensure its interventions will be <b>evidence-based, proportionate, consistent, accountable and transparent</b> in both deliberation and outcome.
	Ofcom will regulate with a <b>clearly articulated and publicly reviewed annual plan</b> , with stated policy objectives.
<b>How we support regulation</b>	Ofcom will <b>research markets constantly</b> and will aim to remain at the forefront of technological understanding; and
	Ofcom will <b>consult widely</b> with all relevant stakeholders and <b>assess the impact of regulatory action</b> before imposing regulation on a market.

- 2.5 What our principles mean in practice is that:

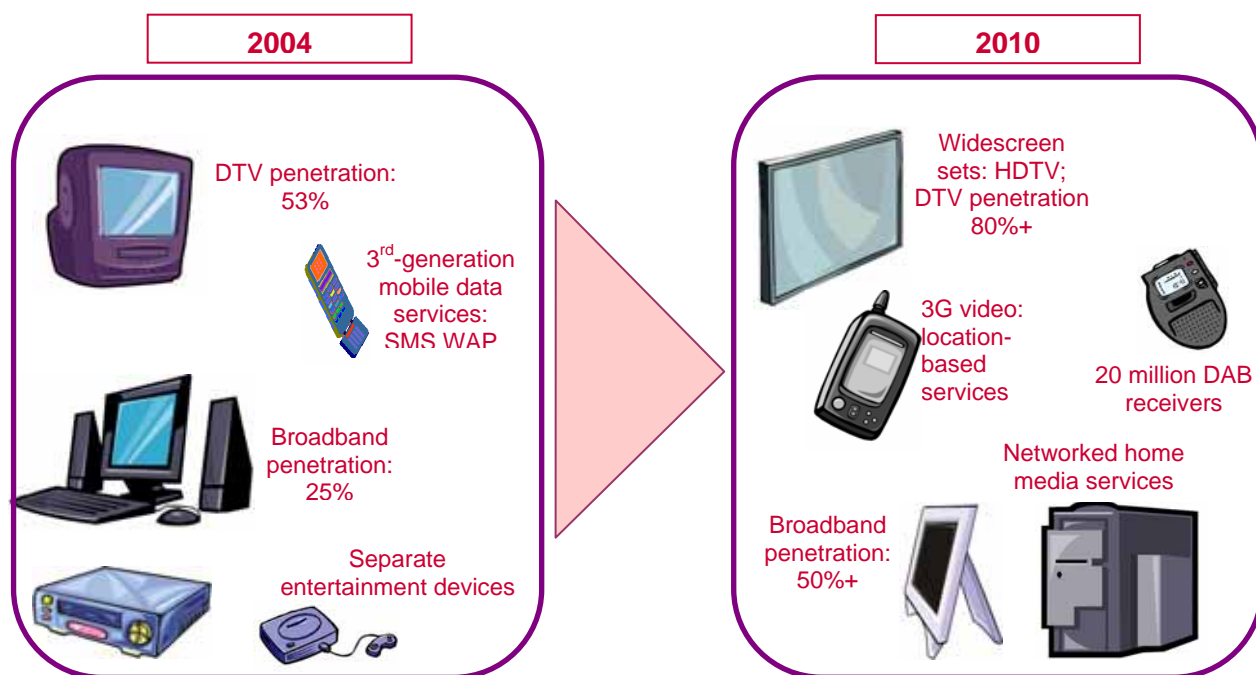
- We will intervene only if:
  - there is a specific statutory duty;
  - markets alone will not address the issue; and
  - there is clearly a citizen or consumer interest we can address.
- Our bias against intervention means that a high standard of proof must be satisfied. In other words, there must be a clear case for intervention, and the prospective benefits must exceed the costs of any action.
- If a case for intervention can be made, we will choose the least intrusive means of achieving our objective.

## The role of markets

- 2.6 We must exercise our responsibilities against a background of dynamic change in the communications sector. In a rapidly changing world, the benefits for citizens and consumers are potentially largest where markets are open, new entrants can compete against incumbents, investment is encouraged and innovation flourishes. Not only do more open and competitive markets bring existing services that are faster, cheaper and more widely available, they also create the best environment for new services, enabled by new technologies and business models.

- 2.7 All our research suggests that we are at a critical moment in the development of the communications sector, as figure 2.3 illustrates. The potential for further consumer benefit is great, and there are significant opportunities for the sector to grow and prosper, provided we have the right regulatory environment.

**Figure 2.3 The communications sector in transition – possible developments**



- 2.8 Internationally the UK's position is generally strong, though there are still areas where there is some catching up to do. The position in key sectors is set out below:

- The UK continues to be ahead of other European countries on take-up of digital TV and radio.
- Mobile penetration is high, and, although there has been little movement in mobile prices over the last year, UK consumers remain satisfied with their overall level of service.
- Access to broadband and take-up of services have increased rapidly, and prices have fallen – but the UK's penetration still remains below some major competitor economies. While service provider competition is relatively strong, take-up of Local Loop Unbundling is comparatively low.
- The UK's telecoms markets are generally more competitive than other European countries, but there remain areas where competition is not yet well-established.

- 2.9 A clear priority for Ofcom, therefore, is to continue to encourage and promote dynamic, open and flexible communications markets. This means:

- Encouraging an environment which supports investment and innovation in the future, not just lower prices for existing services now.



- A firm intention to pull back from detailed regulation where the prospects of competition are clearly emerging.
- An emphasis on helping markets work better, for example, through the provision of better information to consumers, rather than substituting regulation for the market.

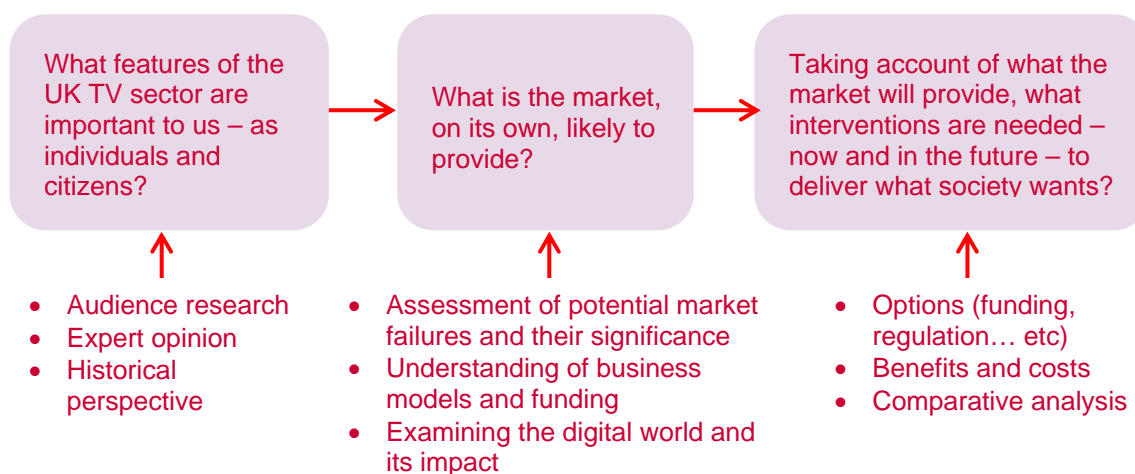
2.10 Phase 2 of our strategic review of telecoms, published in November 2004, contained proposals in all three of these areas:

- real equality of access for BT's competitors, although the means of achieving this remains to be determined;
- withdrawal of layers of regulation from wholesale and retail markets where equality of access is delivered; and
- improving consumer information and simplifying the process of switching suppliers for consumers.

### Protecting citizens and consumers

2.11 In some cases, markets alone will be unable to deliver all the outcomes society would like. Figure 2.4 shows the framework used in our strategic review of public service television broadcasting (PSB) to consider the extent to which the market would meet viewers' demands and what regulatory interventions would be needed.

**Figure 2.4 Framework for the PSB review**



2.12 We will continue to take steps to protect the interests of citizens and consumers, where such action is needed. This will mean:

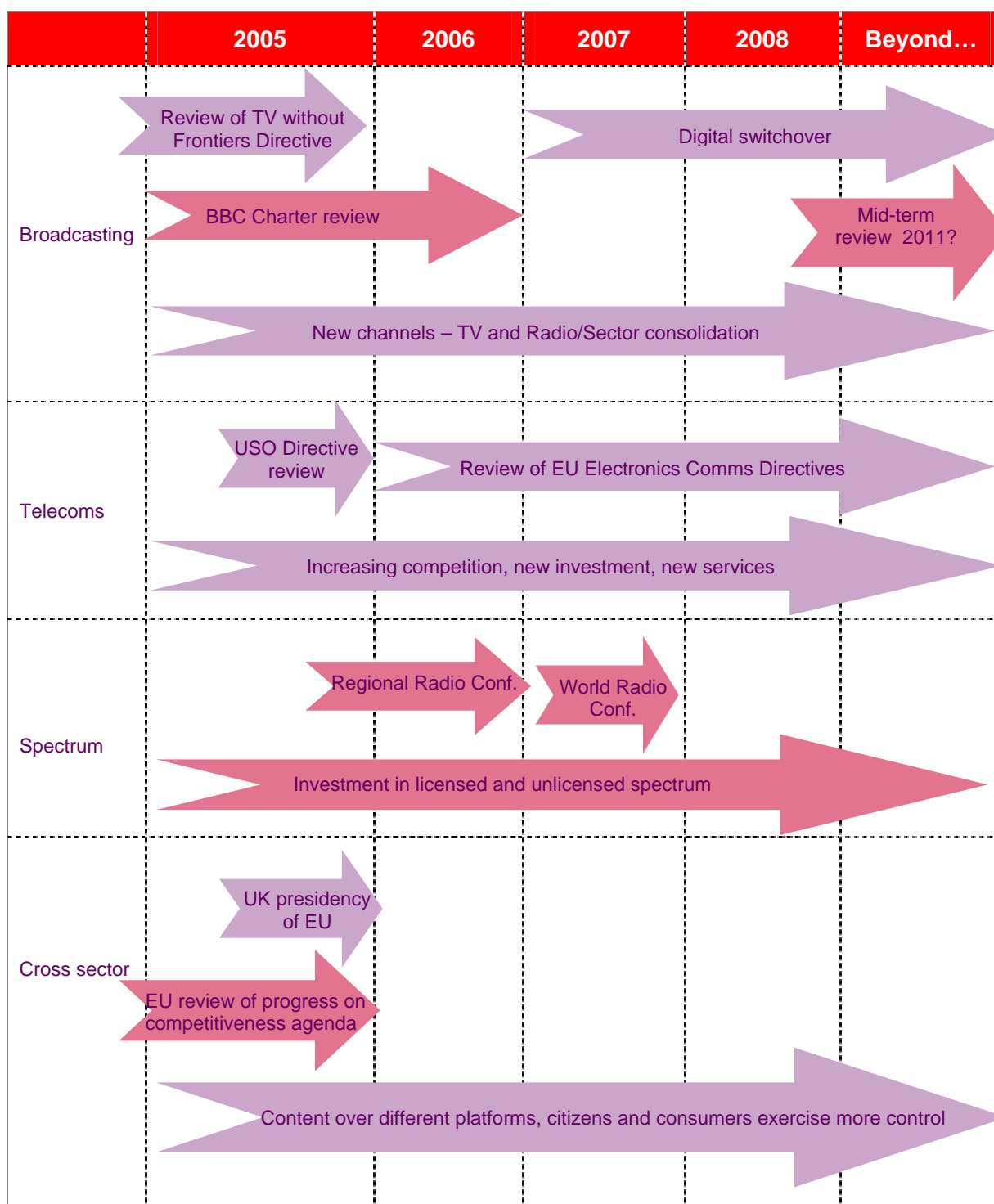
- Measured but decisive action where the public interest is clear. For example we will:
  - require universal access to a prescribed set of communications services and public service content;
  - protect the most vulnerable, especially children, from harmful or offensive broadcast content;
  - take action to deal with unfair or misleading sales practices.

- A presumption that over time well informed adult individuals should exercise more responsibility and choice in determining the content they consume, or the communications services they choose to buy.
- Careful and continuing research into changing public attitudes and expectations about the desired level of regulatory intervention across all media and communications platforms – recognising that the scale and scope of any intervention is likely to change and possibly reduce over time.

### **A three-year strategic approach**

- 2.13 In 2004/5 we focused on establishing Ofcom, carrying forward work started by our predecessors, fulfilling our obligations under the Act to revise significant parts of the regulatory framework and conducting reviews of telecoms, spectrum and public service broadcasting to determine our future strategic direction.
- 2.14 Ofcom's Annual Report will provide a comprehensive account of our activities during 2004/5, but it is important to signal in our plan for next year how the nature of our work will shift, with the launch of a three-year programme to implement the strategic reviews carried out in our first year of operation.
- 2.15 Section 3 provides more detail about this programme of implementation and our other priorities for 2005/6. Through implementation of the three strategic reviews and other initiatives, we will actively search for ways to reduce regulation over time and will continue to improve the efficiency and effectiveness of our operations. We will also look forward by conducting a review of digital, multi-media platforms. We hope this will facilitate a wide-ranging public debate about whether content, including internet content, could or should be regulated in a more converged world, and if so, how. We will also conduct reviews of broadcasting content production and the second generation of broadband networks and services.
- 2.16 Ofcom also needs to contribute to the way the legislative framework develops. It will be particularly important for us to understand and engage more fully with the evolution of the EU regulatory framework. Figure 2.5 sets out some of the key external factors and events Ofcom will need to engage with.

**Figure 2.5 External factors and events**

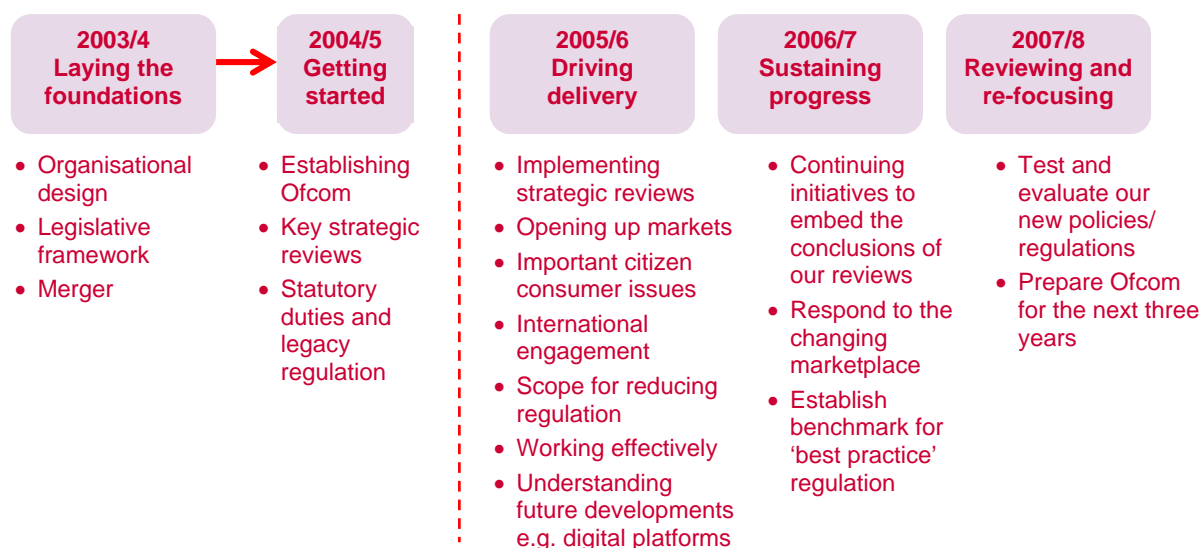


2.17 We therefore propose a three-year work programme, which will mark a period of significant regulatory change, renewal and – in some key areas – withdrawal:

- In 2005/6 we will begin a three-year programme of delivery, focusing on implementing the strategic reviews and opening up markets.
- In 2006/7 we will sustain progress, working to embed the conclusions of our reviews and establish a benchmark for 'best practice' regulation.
- In 2007/8 we will review and refocus our work through testing and evaluating the impact of our new policies, and assessing the further scope for reducing regulation across the sector.

2.18 Figure 2.6 summarises how Ofcom's focus has developed and will evolve over the next three years.

**Figure 2.6 Ofcom's changing focus over the next three years**



2.19 By the end of 2007/8, our aim is to have encouraged the development of an environment in which:

- There is much more competition and innovation in broadband networks and services.
- There is a thriving commercial media sector, with a strong public service contribution, using new technologies as well as conventional broadcast channels.
- Citizens and consumers are better informed and have the option, via new technologies, labelling and price/quality information, to make effective choices about the content and services they use.
- There is widespread access to new digital/broadband services, to all citizens and consumers, throughout the UK.
- The TV digital switchover process has started and is on track.
- Ofcom costs less and does less.

## Section 3

# Priorities for 2005/6

- 3.1 2005/6 will see Ofcom focused on delivery and implementation. Our key priorities are set out in figure 3.1 and this section considers each of them in turn.

**Figure 3.1 Priorities for 2005/6**

Implementing the strategic reviews
Opening up markets and encouraging innovation
Addressing important citizen and consumer issues
International engagement
Taking opportunities to reduce regulation
Working effectively
Understanding future developments

- 3.2 Annex 3 outlines the strands of work we will be undertaking, grouped into the seven priority areas. The final version of the plan, which we will publish following the consultation, will provide information about each area of work, including more information about the timing of outputs and details of who to contact for more information.

## Implementing the strategic reviews

- 3.3 Our first priority for 2005/6 is to take forward the proposals advanced in our major strategic reviews, subject, of course, to the final outcome of the current consultation processes.

## Telecoms

- 3.4 Our strategic review of telecoms prepares the ground for a new regulatory framework as the market undergoes a move from analogue to digital; away from the switched-circuit fixed line networks of the past and towards next-generation networks based on internet protocol.
- 3.5 We have identified two key problems:
- An unstable market structure in fixed telecoms, dominated by BT and with alternative providers that are, in the main, fragmented and of limited scale.
  - The continuance of a complex regulatory mesh, devised over twenty years of regulation and in many areas dependent upon intrusive micro-management to achieve its purposes.
- 3.6 In response, our Phase 2 report identified three options:
- De-regulation.
  - Enterprise Act referral.
  - Real equality of access to BT's network.

- 3.7 Removing the existing mesh of regulation and relying on competition law would reduce intervention, but would be unlikely to encourage the growth of greater competition.
- 3.8 Equality of access would mean
- BT would be required to offer competitors:
    - same or similar wholesale products and prices as are made available by BT to its own retail businesses;
    - same or similar transactional and development processes as are made available by BT for the use of its own retail businesses.
  - The prospect of regulatory withdrawal, over time, in other areas – such as pricing for larger businesses, and retail price controls.
- 3.9 However, this option would require substantial organisational and behavioural change on the part of BT and whether this can be delivered in practice remains to be seen.
- 3.10 An alternative approach to promoting increased and sustainable competition may therefore be to carry out an Enterprise Act investigation followed potentially by a referral to the Competition Commission. Although this might be more disruptive in the short term, we will need to make a judgement about which option is most likely to secure our longer term strategic objectives.
- 3.11 Our consultation on the proposals set out in Phase 2 of the review ends on 3 February and which option we then choose will depend on how the main market players respond to our proposals. Figure 3.2 outlines some potential work streams for 2005/6, but once we have published our final conclusions in the spring, the work needed to implement the review will be clearer. Whichever is our chosen approach, however, a substantial amount of work will follow.

**Figure 3.2 Initial 2005/6 work streams to implement the telecoms strategic review**

The key components of our implementation work are likely to be:

- Work to:
  - develop a fit-for-purpose Wholesale Line Rental product;
  - clarify how BT's 21<sup>st</sup> Century network will be regulated;
  - consider our future approach to regulation of BT's broadband products;
  - develop our policy on the provision of consumer information.
- Preparatory work to achieve equivalence and behavioural change by BT, with further work being dependent on the final conclusions we reach.
- Preparatory work to inform a possible Enterprise Act investigation.

**Public service television broadcasting**

- 3.12 In Phase 2 of our review of public service broadcasting, we set out proposals to maintain and strengthen public service television in the digital age.

3.13 The framework we proposed had several key elements:

- The importance of a strong, independent, fully-funded, appropriately governed and public service focused BBC, funded through a licence-fee model, with a limit on its commercial activities and working effectively with the independent production sector.
- Channel 4 as a critical second provider of public service broadcasting, to remain a primarily not-for-profit free-to-air broadcaster, free to form alliances, joint ventures and partnerships with other organisations.
- ITV1 to play to its strengths in public service broadcasting, contributing high-quality, UK-originated production, investment in news, regional news and current affairs.
- Five committed to UK-originated programming and acting as a market-led public service broadcaster.
- A new concept to stimulate innovation and plurality: a competition to run a new Public Service Publisher (PSP) using new technologies and distribution systems to meet audience needs in the digital age.
- Proposals for PSB in Scotland, Wales and Northern Ireland still to be proposed and debated.

3.14 We will shortly be offering our final proposals after considering the responses to the consultation. For the moment, therefore, our assessment of the work that will be needed to implement those proposals is provisional. In 2005/6 we will implement those proposals which are our own direct responsibility, and continue to make the case for those which are outside Ofcom's statutory responsibilities. Figure 3.3 summarises the key areas of PSB work for 2005/6.

**Figure 3.3 Key work streams to implement our Public Service Broadcasting proposals (subject to the outcome of the current consultation)**

Key components of our implementation work will involve:

- settlement of the licence terms for Channels 3 and 5;
- remodelling of Tier 3 regulation to be consistent with our proposed public service values and purposes;
- proposals for the Nations and the English regions;
- continued dialogue with Channel 4;
- developing a new approach to the assessment of compliance with PSB requirements, including a new audience tracking survey;
- more detailed work on options for introducing local TV services post-switchover;
- a new review of electronic programme guides; and
- subject to the conclusions of the review, developing the Public Service Publisher proposal and managing the transition towards new requirements governing national and regional programming.

## Spectrum

3.15 In our spectrum framework review, published in November 2004, we set out our strategy for securing the optimal use of the civilian radio spectrum. The proposals are designed to:

- Enable radio spectrum licence holders to make more efficient use of their spectrum allocation.
- Encourage innovation and investment in new and existing wireless communications services across the UK.

3.16 Spectrum has traditionally been centrally allocated and managed by the regulator. However, demand for spectrum has increased dramatically in recent years and centralised administration risks limiting innovation and the development of higher-value services.

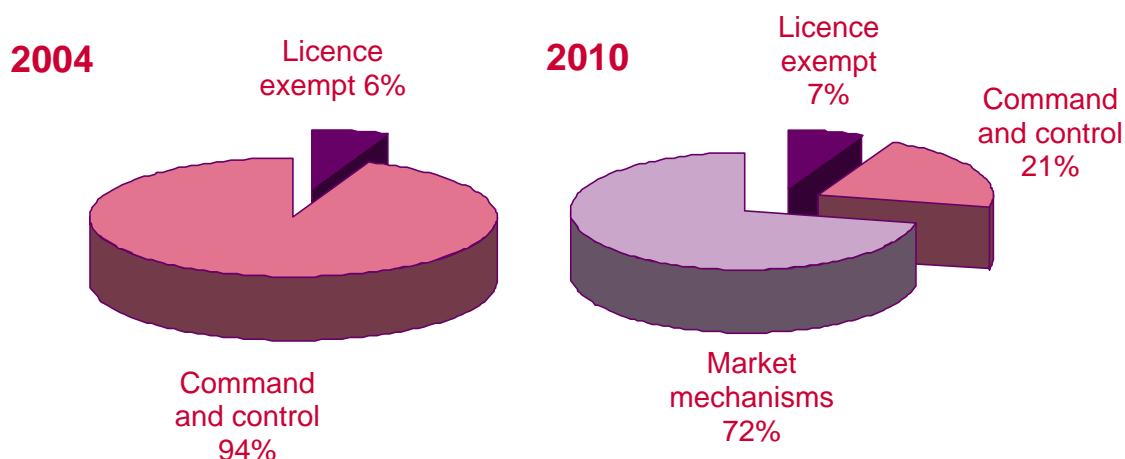
3.17 We set out four key recommendations to address this problem:

- Allow the market to decide the best use for new spectrum allocations.
- Allow licence holders to trade spectrum in an open market and change the use they make of spectrum rights to develop new technologies and offer different services to customers (also known as liberalisation).
- Redefine the rights of spectrum users, giving them the confidence to plan for the future.
- Increase the amount of licence-exempt spectrum which allows businesses to develop and bring to market new technologies and services without the need for a licence.

3.18 Ofcom will, over time, apply this market-led approach to over 70% of the radio spectrum (0% at the start of December 2004). This is shown in figure 3.4. However, we will continue to maintain control over spectrum licences where:

- signals cross international boundaries;
- international mobility or safety is critical; or
- the UK has agreed to harmonise spectrum use in line with multi-national accords.

**Figure 3.4 Proposed changes to spectrum management**





3.19 The consultation on our proposals will end on 15 February and after considering the responses we expect to publish a further report in the summer. We are also publishing our spectrum implementation plan, which sets out details of our work to develop the evolving framework. Figure 3.5 shows some of the spectrum that is likely to be awarded in the next two years under this plan. The timings are indicative only and may change in the light of comments on the implementation plan and external factors.

3.20 In 2005/06 this work will include:

- Changing spectrum licences to allow more trading and more flexible use.
- Improving the spectrum licensing process, for example, by putting services online and deregulating where we can.
- Planning for the spectrum that will be released as a result of digital TV switchover to be allocated in a way which is as market driven as possible and consistent with the conclusions of the spectrum framework review. Related to this is the need to prepare for the Regional Radio Conference in 2006 which will influence how the spectrum released by switchover can be used.
- Reviewing power levels in licence-exempt bands in rural areas.
- Redefining spectrum usage rights.

**Figure 3.5 Spectrum below 3GHz to be awarded in the next two years and which is likely to be suitable for mobile-type services**

<b>Bands below 3GHz</b>	<b>2005-2006</b>	<b>2006-2007</b>	<b>2007-2008</b>
1781-1785 MHz/1876-1880 MHz (GSM/DECT guard bands)	•		
2290-2302 MHz	•		
2010-2025 MHz	•		
410-415 MHz/420-425 MHz, 872-876 MHz/917-921 MHz (Ex-Inquam bands)	•		
2500-2690 MHz		•	
1452 -1492 (L Band)		•	
1790-1798 MHz			•

## Radio

3.21 Our review of radio, published in December, proposed a set of strategic aims for regulation in radio:

- Enhance choice, diversity and innovation for listeners at the UK, national, regional, local and community levels, for example, by licensing new analogue and digital services and encouraging the growth of digital radio.
- Secure the provision of radio designed to meet public purposes, for example, by encouraging the development of a thriving community radio sector.
- Subject to the above objectives, intervene in the market as little as possible, for example, focusing where possible on the range and quality of content available to listeners, rather than on methods of production.

3.22 The review also addresses two specific issues:

- Local material and locally-made programming on analogue commercial radio – we propose to put less emphasis on input regulation of local analogue commercial radio and more emphasis on the output – the services actually delivered to listeners – as well as more of an onus on stations to demonstrate what they have delivered.
- Digital radio – we support the further development of Digital Audio Broadcasting (DAB) and have proposed new spectrum capacity for local and national multiplexes.

3.23 The consultation on the first phase of the review ends on 12 March 2005 and we expect to publish a further report later in the spring. A more detailed implementation programme will be prepared for the final version of our Annual Plan.

## Opening up markets and encouraging innovation

3.24 The communications sector is changing rapidly and citizen and consumer benefits are potentially largest where markets are open, new entrants can compete against incumbents, investment is encouraged and innovation flourishes. Ofcom will therefore continue to encourage and promote dynamic, open and flexible communications markets.

3.25 In 2005/6, our work will include:

- The launch of an extensive programme of new spectrum release, with awards of a number of spectrum bands as detailed in our spectrum implementation plan.
- Pursuing the minimum level of harmonisation at EU level to facilitate the development of new and innovative services, such as Ultra Wide Band, while seeking the flexibility to maximise the benefits of spectrum trading and liberalisation.
- Continued improvements in spectrum licensing.

- Continued active support for digital switchover in television, including:
  - providing support for an industry body, Switchco, to ensure the mechanisms are in place to achieve digital switchover in the period 2007 to 2012;
  - completion of the licence terms review process for ITV and Five; and
  - further detailed frequency planning work to facilitate the regional switch-off plan.
- Awards of approximately 15 new analogue commercial radio licences and the first community radio licences.

3.26 Alongside the above, we will take further targeted action to promote competition. There will be:

- A review of competition in broadcasting markets to develop an overall strategic framework which will guide our regulatory decisions over the following two to three years. The review will involve:
  - research into trends in technology, consumer demand and market structures;
  - analysis of the economics of the broadcasting sector;
  - identification of emerging gateways;
  - an assessment of the competitive environment in pay TV, free to air TV, radio, internet, content production and premium content;
  - examination of rights issues; and will
  - take account of the rules on State Aid.
- In telecoms there will be a number of initiatives to promote further competition. Alongside the telecoms strategic review implementation programme, we will:
  - continue to support the work of the Telecoms Adjudicator in achieving effective Local Loop Unbundling;
  - begin further work in the mobile telephony market – in particular, we will carry out a further review of mobile call termination charges; and
  - continue our work on telephone number allocation and on developing telephone number policy to ensure that sufficient numbers are available to support competition.

3.27 In addition, we will continue to stimulate competition in the supply of communications networks and services by resolving disputes between communications providers and investigating serious complaints of anti-competitive behaviour, subject to the threshold we have successfully established in 2004/5.

### **Addressing important citizen and consumer issues**

3.28 All of Ofcom's work is ultimately focused on furthering the interests of citizens and consumers. In some cases, however, Ofcom needs to intervene directly to protect or serve citizen or consumer interests. While these actions cover a wide range of areas, for 2005/6 there are four priority areas to highlight in particular:

- A review of universal service in telecoms.
- Setting the media literacy agenda.

- Protection of children from harmful content.
  - Consumer protection and information.
- 3.29 Universal service ensures basic telephony services are available to everybody upon reasonable request and at affordable prices – fixed telephony services and narrowband internet access are currently covered. Ofcom will review the policy basis for universal service following our strategic review of telecoms in 2004/5 and feed this into the EU review of universal service in 2005/6.
- 3.30 In setting the agenda for media literacy we will complete a major research programme and seek to identify areas of concern relating to emerging communications technology and services particularly relating to fixed and mobile internet content. We will encourage public debate and engagement on key issues such as labelling.
- 3.31 In 2004/5 Ofcom contributed to the development of thinking on the key citizen issue of the impact of TV food advertising on children's health. This work will be taken forward in 2005/6 in reviewing the appropriate set of rules for broadcast advertising in conjunction with other relevant bodies. More generally, we will continue work to understand and assess options for protecting children from harmful content – in broadcast and other media.
- 3.32 A significant emerging issue in 2004/5 has been the adverse impact on consumers of mis-selling and other unfair sales practices. An important element of our 2005/6 work plan will be further action in this area to improve consumer information and awareness and examine options for tackling the problem at its source.
- 3.33 There is a range of other activities that Ofcom will pursue under the heading of important citizen or consumer issues – from dealing with complaints in the Ofcom contact centre to consumer protection – details of which are included in Annex 3. Ofcom's Content Board will continue to play a key role in protecting the interests of citizens where content and standards issues are involved – ranging from media literacy to the effective implementation of our proposed public service broadcasting purposes and values.

### **International engagement**

- 3.34 The framework within which Ofcom regulates is to a significant extent determined at supra-national level and we need to understand and help inform this legislative agenda. Ofcom intends to engage more actively with Europe in 2005/6 and beyond.
- 3.35 Our strategic priorities for Ofcom's international activity are to:
- Implement the proposals of the telecoms and PSB reviews.
  - Implement spectrum flexibility by ensuring the spectrum framework review's proposals for a more market-based approach can be implemented. In particular, we will be seeking to influence European decisions in relation to the 2500-2690 MHz band and Ultra-Wide Band.

- Prepare for the future by ensuring there is sufficiently flexibility under the revised EU content regulation (e.g. Television Without Frontiers Directive) to implement a more converged approach.
- Encourage the development throughout Europe of a coherent market-based approach to regulation, consistent with our overall regulatory aims and principles. In relation to telecoms, the principal means of achieving this objective will be through our involvement with the European Regulators' Group, which includes all Member States' telecoms regulators and the Commission.
- Support the UK Presidency of the EU.

3.36 Figure 3.6 below identifies some of the international work that Ofcom will undertake in 2005/6 to promote flexible use of spectrum.

**Figure 3.6 International work to promote flexible use of spectrum**

Spectrum trading and flexibility	Seeking to influence activities of the ITU <sup>2</sup> , CEPT <sup>3</sup> and EU in a way that is consistent with Ofcom policy.
Ultra Wide Band	Promoting a common European approach to Ultra Wide Band which is consistent with the UK position.
2500-2690 MHz band	Seeking to persuade the Commission and other countries that this spectrum should be made available in a technology neutral way.

## Taking opportunities to reduce regulation

### Reduced regulation in 2004/5

3.37 In 2004/5 we have already reduced regulation in some key areas. Figure 3.7 gives ten examples of areas where we have withdrawn or reduced regulation, resisted the introduction of new regulation or introduced co-regulation.

<sup>2</sup> International Telecommunications Union

<sup>3</sup> European Conference on Posts and Telecommunications

**Figure 3.7 Areas where Ofcom has reduced regulation during 2004/5**

- Introduced spectrum trading, allowing licence holders to trade spectrum in an open market.
- Removed the rules prohibiting the joint selling of airtime by the large TV sales houses.
- Issued commercial television broadcasters with Digital Replacement Licences that had fewer content-related licence conditions than the licences they replaced.
- Contracted-out advertising regulation, with the Advertising Standards Authority now providing a one-stop shop for consumer complaints.
- Streamlined the process for the licensing of commercial radio.
- Removed the charge control governing the charges made by BT to other providers to facilitate number portability.
- In relation to a number of markets, removed obligations on BT and Kingston, which had been carried over from the previous regulator, such as the prohibition on undue discrimination and the obligation to publish prices.
- Removed the regulation of higher bandwidth retail leased lines which had been carried over from the previous regulator.
- Raised the threshold for accepting competition complaints and disputes, thereby placing less of a burden on stakeholders who are the subjects of complaints.
- Removed the charge control on BT's wholesale charges to other providers who handle emergency calls.

### **Reducing the burden in 2005/6**

3.38 We will continue in 2005/6 to look for opportunities to reduce the burden of regulation on stakeholders and employ innovative approaches, such as co-regulation. In particular, we will:

- Examine whether existing regulation is needed or can be removed.
- Take forward new market-based approaches e.g. spectrum liberalisation, which will eventually reduce the need for Ofcom's involvement.
- Develop our approach to addressing the interests of consumers, for example, increasing their opportunities to exercise control and choice themselves by facilitating the provision of consumer information.

- Report, in our Annual Report, on where we have reduced or removed regulation during the course of the year.
- 3.39 Underpinning this work is the requirement in the Act to avoid imposing or maintaining regulatory burdens which are unnecessary.
- 3.40 Where we have taken action to place greater responsibility on stakeholders to self or co-regulate – as is the case with broadcast advertising complaints – we will monitor how this is working. Through such action we can learn from our successes and identify areas where there is room for improvement.
- 3.41 We will ensure that we carry out more Impact Assessments in relation to our policy decisions, and that those assessments incorporate consideration of a range of regulatory options, including not regulating. When introducing regulation we will also consider how the impact of regulation should be measured, when it will be appropriate to review whether the regulation is still needed, and identify an exit path from regulation in each case. Ofcom is publishing guidelines “Better policy-making: Ofcom’s approach to Impact Assessment” and will be seeking stakeholders’ views in the first part of 2005.

### Working effectively

- 3.42 We will aim to improve the effectiveness of a wide range of our functions:
- Pursue a best practice approach to policy-making, ensuring that our decisions are robust, consistent and based on sound evidence, utilising market research and technology research as appropriate.
  - Improve our communication with stakeholders, with an improved website, and a renewed emphasis on ensuring we explain our policies and initiatives to citizens and consumers, as well as to businesses and other stakeholders.
  - Review our approach to consultation to ensure we do not impose unnecessary cost burdens on our stakeholders.
  - Continue to publish the results of our comprehensive research programme including quarterly Communications Market Reports and a range of technology reports. (See Figure 3.8 for examples of the research and technology programme outputs planned for 2005/6).
  - We will complete a Welsh Language Scheme (to be agreed with the Welsh Language Board) and an equality scheme under the Northern Ireland Act.
- 3.43 In addition, we will complete our internal programme of cross-group working and organisational development. We are still a new organisation, with colleagues both from our predecessor regulators and who joined from elsewhere. The completion of our ambitious programme of work will require effective collaboration across the whole organisation and the mobilising of the skills and experience of all colleagues.

**Figure 3.8 Provisional technology and market research programme for 2005/6**

<b>Market research</b>	<b>Technology</b>
Annual communications market report	Research and development programme report
Media literacy report	Research and development symposium
Report on the digital consumer	Report on Ofcom's role in stimulating technology innovation
Report on the digital Small & Medium Sized Enterprise	Spectrum Efficiency Scheme project outputs
Audit of the Nations and Regions	Report on digital rights management

### Understanding future developments

3.44 Alongside our major implementation programme, in 2005/6 we will undertake further analysis of evolving markets so that we can anticipate and respond to the changing environment. This work will cover three areas:

- digital multi-media platforms;
- second generation broadband;
- broadcasting content production.

3.45 Each review will result in published research and proposals for consultation and will focus, in particular, on the scope for helping markets to develop and opportunities to reduce regulation.

### Digital multi-media platforms

3.46 New technologies are transforming the communications landscape and we face a potentially very different and more converged future, with wide implications for consumers, industry players and Ofcom. Figure 3.9 provides some examples of how convergence is occurring and how the blurring of distinctions between platforms may lead to the more flexible and interchangeable use of electronic technology by consumers.

3.47 We will carry out a review of digital platforms that will address the regulatory issues associated with content becoming available via a range of different media. We will examine:

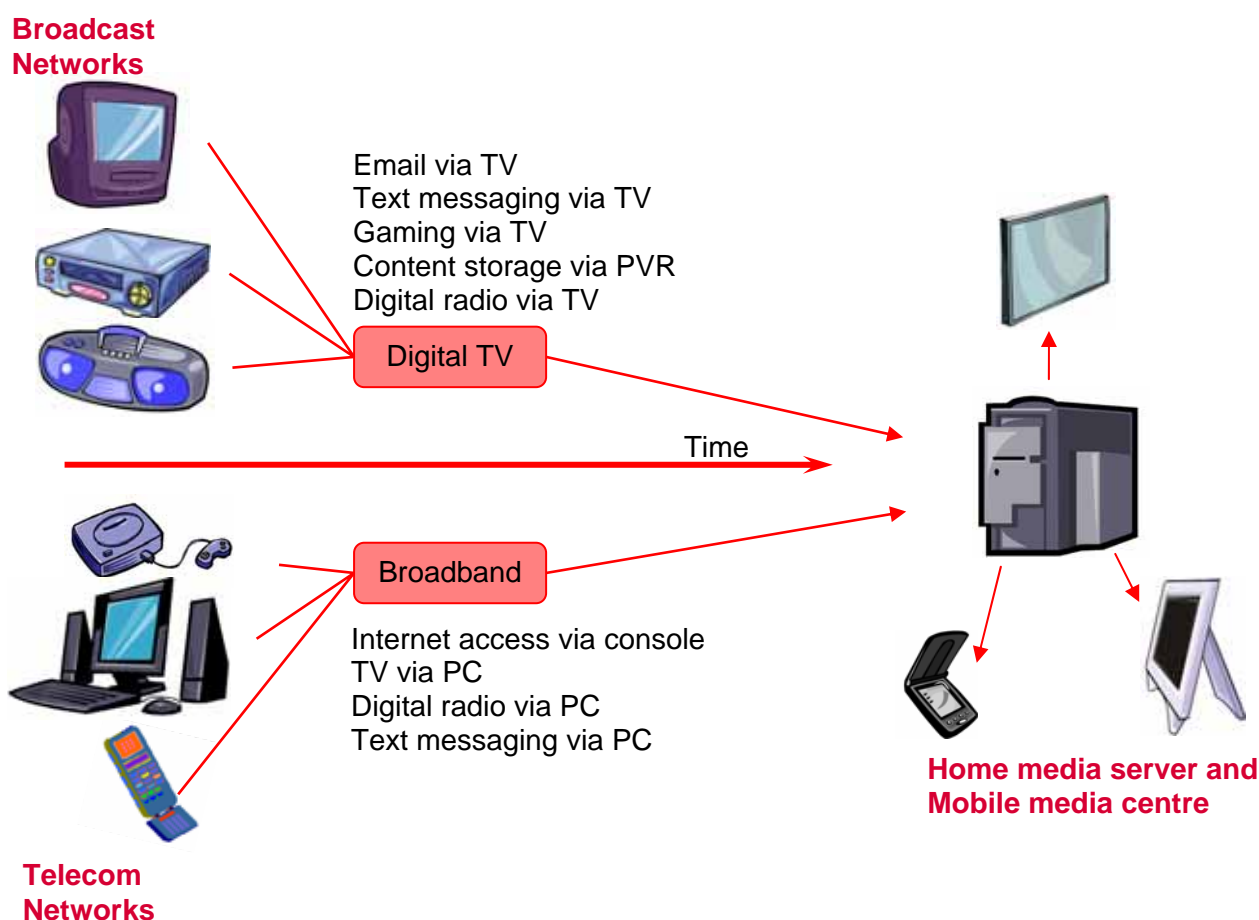
- technology trends and developments in relation to both platforms and consumer devices;
- how digital rights are managed and the impact on competition and adoption of new services;
- the perceptions and needs of citizens and consumers; and
- approaches taken elsewhere in Europe and internationally.



3.48 We hope this review will facilitate a wide-ranging public debate about the future development of content and the implications for regulation, if any. We will need to consider important questions such as:

- whether the current model of regulating broadcasting content is sustainable;
- whether a consistent or platform-neutral approach to content regulation – looking beyond traditional broadcasting – is desirable or indeed practicable;
- how consumer protection can be balanced against the need to protect the rights of others;
- the extent to which citizens and consumers will be able to control access to content themselves using tools such as parental controls;
- what is the role of Ofcom vis-à-vis Government and other regulatory bodies.

**Figure 3.9 Distinctions between different platforms are beginning to blur**



### Second generation broadband

3.49 Our telecoms strategic review has identified measures to promote competition in current generation broadband, but the economic and social potential of further broadband development in the UK could be immense. This review will identify the incentives and barriers associated with the roll-out in the UK of second generation broadband and map out the implications for Ofcom in supporting broadband development. In particular, we will look at the:

- business climate for investment in new networks;
- content drivers for take-up of second generation services, such as video-on-demand and on-line gaming, drawing on experience in other countries;

- the impact of different regulatory approaches on the early deployment of second generation access networks;
- factors which may deter adoption of second generation services by consumers.

### **Broadcasting content production**

3.50 The content production sector is a significant UK economic and cultural presence, but there is potential for funding difficulties and competitive failures. We will undertake a strategic review of the content production sector in the UK, including an assessment of:

- the market for production in the UK, how it has evolved, its structure, value and levels of growth;
- the likely future direction of the market and its interaction with regulation at a UK, EU and international level;
- the impact of digital platforms in terms of changing methods of distribution of content, new business models for paying for content and the implications this may have for regulation in the future;
- the overall regulatory framework, including a review of the existing codes of practice.

## Section 4

# Impact on stakeholders

4.1 The following sections are intended to illustrate the ways in which our work will impact more specifically on different groups of stakeholders.

## Citizens and consumers

4.2 Furthering the interests of citizens and consumers is at the heart of Ofcom's work:

- The Consumer Panel – Ofcom has established an independent Consumer Panel to advise on the consumer interest in the markets it regulates. The Panel has advised that it will be examining how the consumer interest is reflected in Ofcom's policy making over the coming year. See figure 4.1 for the Consumer Panel's plans for 2005/06.
- Consumer information – the Telecoms Strategic Review highlighted that for competition to be effective in delivering benefits to consumers, it is essential that consumers have access to clear and reliable information. Ofcom has proposed a number of options for improving consumers' awareness of alternative suppliers and their means of choosing between them. We will work to ensure the relevant options are implemented following consultation.
- Media literacy – in an increasingly converged communications world, people face greater media choice. Media literacy will provide some of the tools they need to make full use of the opportunities offered, to manage their expectations and to protect themselves and their families from the risks involved. We will work with stakeholders to help focus on the present and future media literacy needs of all members of society and provide leadership and leverage.
- Consumer protection – Ofcom will seek to ensure that consumers:
  - are adequately protected against a range of potential nuisances such as mis-selling;
  - are aware of their rights; and
  - have access to certain services that communications providers should supply.
- Universal Service – Ofcom's work on universal service regulation ensures a basic safety net of services that are available to all at affordable prices. Ofcom will consider how changes in technology and consumer demand may change the scope of universal services in future.
- Complaint handling – Ofcom aims to:
  - continue to exert influence to ensure communications providers recognise it is in their best interests to resolve complaints directly and first time;
  - work with appropriate independent third parties with a role in resolving disputes; and
  - provide a high quality of service in dealing with complaints from a broad range of viewers and listeners, as well as consumers of telecoms and wireless services.

- Research – through Ofcom's research programme we will constantly seek the views of consumers and use this to inform our policy decisions.
- Developing Ofcom's approach to the citizen interest – to examine how the consumer interest is reflected in Ofcom's work, we will:
  - seek to understand better and define the citizen interest;
  - identify how Ofcom approaches the citizen interest in practice; and
  - develop a framework for addressing the citizen interest for adoption in Ofcom's work.
- Diversity – future recruitment to Advisory Committees and similar bodies will seek to ensure that the composition of such bodies reflects Ofcom's policy on diversity.

#### **Figure 4.1 The Consumer Panel**

The Consumer Panel is independent of Ofcom and provides advice on the interests of consumers in the markets Ofcom regulates.

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In the year ahead, the Panel will continue to adopt a strategic approach to its work, concentrating on those areas which emerge as the strongest concerns for consumers from the Panel's own research. One of the most significant of these will be ensuring that the full benefits of the evolving communications market are fully accessible to all in society.

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This will build on the work undertaken by the Panel on digital TV switchover, which crystallised the Panel's view that the people who most need assistance to benefit from new technologies are those at risk of social isolation, particularly older people.

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The Panel will also be critically examining how the consumer interest is reflected in Ofcom's decision-making (through a Consumer Audit), and undertaking further research into consumer concerns.

### **Nations and Regions of the UK**

- 4.3 As well as the work on universal service highlighted above and further licensing of local and community radio stations, Ofcom's review of public service broadcasting will have clear implications for citizens and consumers in different parts of the UK. Subject to the conclusions of our public service broadcasting review we will be:
- managing the transition towards new requirements governing national and regional programming; and
  - planning longer-term proposals for local TV and new media services.
- 4.4 In order to ensure Ofcom has a good understanding of the different issues that affect citizens and consumers in different parts of the UK, Ofcom intends this year to carry out an assessment of communications provision in the Nations and Regions to analyse:
- the current state of the communications marketplace by nation and by region;
  - how to ensure our regulatory strategy addresses the UK overall; and
  - how this is tailored to each nation and region.

- 4.5 This initiative will be accompanied by a series of seminars and workshops around the UK to assess relevant issues and priorities.

### **Older and disabled people**

- 4.6 Ofcom's universal service work also impacts on older and disabled consumers. For example, we intend to undertake a feasibility study of a video-relay service which would provide an alternative to the current text-relay service for deaf and hard of hearing consumers.
- 4.7 Ofcom must also encourage the development of electronic communications equipment and services that are easy for consumers to use and is already engaged on a wide range of activities including an audio standard that will make watching television easier for people with hearing impairments. Working with partners in the private and public sectors, in 2005/6 Ofcom will identify future priorities for action in consultation with the Consumer Panel and the Advisory Committee on Older and Disabled People.
- 4.8 Ofcom's further work on electronic programme guides will ensure statutory obligations on accessibility features are effectively implemented.
- 4.9 Ofcom needs to understand the different needs and demand characteristics of citizens and consumers of different ages, including older people. Our market research work will allow us to analyse the effect of demographics on usage of communications services.
- 4.10 In our work on driving digital TV switchover we will seek to understand the impact switchover may have on older and disabled people and to ensure that concerns are effectively addressed. This will complement the work done recently by the Consumer Panel to understand the impact on the most vulnerable consumers in society.

### **Spectrum users**

- 4.11 Ofcom's work to liberalise spectrum and allow trading will allow spectrum users greater flexibility in the way they use spectrum and access to the spectrum they need at a market price.
- 4.12 We also aim to remove unnecessary red tape for the large number of businesses of all sizes and individual citizens and consumers who use the spectrum. For example, Ofcom will be seeking to improve its licensing and interference monitoring processes by:
- simplifying products and systems;
  - deregulating and removing the need for licences where we can;
  - refocusing our inspection and enforcement activity to make the best use of resources; and
  - putting services online.
- 4.13 Ofcom has established the Ofcom Spectrum Advisory Board which provides independent strategic advice to help Ofcom carry out its remit of securing optimal use of spectrum, taking account of the different needs and interests of all users.

## The companies we regulate

4.14 Our strategic framework is intended to ensure that our actions are consistent, transparent and evidence-based and that we avoid imposing unnecessary regulatory burdens and red tape. Some of the areas of work that will help achieve this include:

- Strategic planning – resulting in a business plan which clearly sets out Ofcom's key strategic operating priorities for the years ahead.
- Regulatory approach – including assessing developments in regulatory thinking and practice in UK and around the world. This will help ensure that Ofcom remains at the forefront of regulatory thinking.
- De-regulation – looking at how Ofcom can identify and realise opportunities to withdraw from regulation and assessing whether Ofcom is adding to or reducing the burden of regulation.
- Engaging with stakeholders – examining ways of reducing the costs of consultation and improving access to Ofcom people and information.
- Technology and market research – ensuring Ofcom understands the direction of emerging technologies and consumer trends, as well as operational work, for example, to verify if equipment meets legal requirements regarding spectrum interference.
- Commercial awareness – ensuring we understand the impact of our policies on financial markets and the businesses of our different stakeholders.

4.15 The impact of any unnecessary regulation and red tape will be felt disproportionately by smaller companies and Ofcom's work, for example on reducing regulation, will seek to recognise and address this.

## Companies as communications users

### Large businesses

4.16 Large business users will benefit from the implementation of the telecoms review (and other areas of work designed to ensure markets are opened) via:

- increased competition and innovation where this is possible; and
- by regulation of dominant players where competition needs to develop further.

### Small businesses

4.17 Small business users will benefit from:

- Protection from abuse by dominant players, which can be particularly important for smaller businesses as, acting individually, they have little buyer power over incumbent suppliers.
- Provision of information – the key element is to encourage communications providers to supply timely, relevant, accessible and accurate information to their customers to enable them to make informed decisions. Ofcom's work, for example, on developing price transparency measures, will help small businesses make informed decisions about the services they purchase.

## Section 5

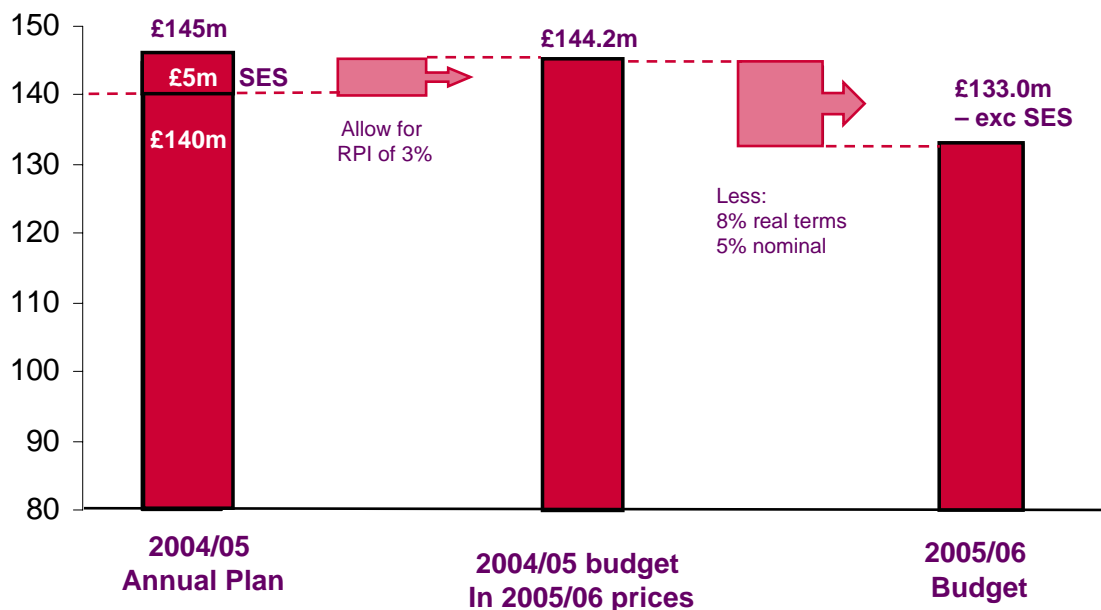
# Finance and effectiveness

## Finance

### Comparison of overall costs with 2004/05 and with the legacy regulators

- 5.1 In bringing together the previous regulators, Ofcom has already delivered a five per cent saving on a like for like basis, reducing colleague numbers by over 300. We are now committed to being an "RPI minus X" regulator and to achieving a five per cent saving during the 2004/05 financial year, with a further five per cent to be saved in 2005/06.
- 5.2 The total cost of the five legacy regulators in their last year of operation was £136m (in 2004/05 prices). On a like-for-like basis, Ofcom's costs for 2004/05 were set at £129m, approximately £7m less than the previous regulators combined. However, as identified in the 2004/05 Annual Plan, Ofcom's new duties and non-reclaimable VAT added some £16m a year to its costs. As a result, for 2004/05 Ofcom set a budget of £145m. Of this £5m was a special grant funded by the Government for work on increasing spectrum efficiency. This is known as the Spectrum Efficiency Scheme ('SES').
- 5.3 For 2005/06 Ofcom will cost £133m (excluding spend on SES). This is a five per cent saving in nominal terms (around eight per cent in real terms). By setting this level of budget Ofcom will more than meet its commitment to cost reductions for this year.
- 5.4 In real terms, Ofcom will cost five per cent less in 2005/06 than the former regulators combined, despite having new duties and increased VAT costs. Figure 5.1 sets out the overall comparison between Ofcom's costs in 2004/5 and 2005/6.

**Figure 5.1 Ofcom costs: Comparison of 2004/05 costs with those for 2005/06**



- 5.5 It should be noted that the Government grant for the SES is not included in this comparison. £5m SES spend was included in the 2004/05 budget and £5m is budgeted for 2005/06. Ofcom will be negotiating with the Treasury about carrying forward into 2005/06 any budget provision not spent in 2004/05.
- 5.6 Of the £133m budget, it is envisaged that £6.4m will be capital expenditure, subject to final consultation. The budget is based on an adjusted cash basis, which includes capital expenditure but excludes depreciation. Ofcom's total costs on a Profit and Loss (P&L) basis – including interest and depreciation, but excluding capital expenditure – are expected to be £135.6m.

### **Loan repayment / Ofcom launch costs**

- 5.7 However, stakeholders have also had to fund the cost of setting up Ofcom. As set out in Ofcom's 2004/05 annual plan, the initial set-up costs incurred by Ofcom for the period March 2003 to January 2004 have been met through loan funding of £52.3m from the Department of Trade and Industry. The loan plus interest is repayable by Ofcom, which must recover these costs from stakeholders. These costs are substantial – some £20m in 2004/5 and £19m for 2005/6. (See figure A4.1 in Annex 4 for a restatement of the phasing of repayments.)
- 5.8 The loan will have been repaid in full by the end of the 2007/8 year, then substantially reducing the costs passed on to stakeholders.

### **People**

- 5.9 Part of the efficiency savings achieved by Ofcom over 2004/05 have been due to reducing colleague numbers. The five organisations Ofcom replaced had a total of 1,150 colleagues. Ofcom budgeted for around 880 at the start of 2004/05. Over the course of 2004/05 there have been further reductions and headcount budgeted for the start of 2005/06 is 825.

### **Source of funds**

- 5.10 Ofcom has three main areas of regulatory responsibility – Networks and Services, Spectrum Management and broadcasting activity. Broadcasting activity is further split between TV and radio. This split is important in terms of how Ofcom raises its funding. Details of the basis of the cost allocation are the subject of a separate Ofcom document on the "Statement of Charging Principles" and are not given here.

### **Efficiency savings**

- 5.11 Efficiency savings have been made across the board. Many of the initiatives started in 2004/05 will be fully implemented in 2005/06.
- 5.12 Particular progress has been made in our various operational areas. For example:
- In Field Operations we are:
    - ceasing routine spectrum compliance inspections, focusing instead on enforcement and investigative inspections;
    - rationalising accommodation in the Nations and Regions by closing small remote field offices;



- rationalising field teams, and vehicle and test equipment;
- improving IS systems.
- In Licensing we are:
  - deregulating certain licence classes – and will accelerate the deregulation of further licence classes (including Amateur, CB, Aero and Maritime);
  - simplifying processes, for example, automating licensing and frequency assignment so they are available online.
- In Ofcom's Contact Centre we are:
  - developing the principle of 'service provider first' for complaints – putting the onus on the service provider who is the subject of the complaint to have primary responsibility for dealing with it – and will extend this to 'broadcaster first' next year.
  - developing the internet for complaint submission.

5.13 There are other areas where efficiencies are being introduced and we are seeking to improve our effectiveness:

- technology research has been reviewed and refocused to ensure Ofcom's research programme supports our strategic priorities;
- co-regulation is being used to ensure responsibility is placed on those best placed to carry out the work – for example, advertising regulation has already moved to the Advertising Standards Authority, and we will be seeking further co-regulatory solutions in 2005/06;
- duplication of work has been removed – for example the market research programme has been rationalised to remove overlaps between the research programmes carried out by our predecessor regulators;
- investment in IS systems will allow more efficient working and enhance the control environment, for example, an improved finance system and a new electronic records management system.

5.14 Looking ahead over the next three years, we expect there to be a shift in focus away from managing spectrum as this will be increasingly subject to market mechanisms. This will change Ofcom's resource requirements, although the scale and pace of change will depend on how quickly market mechanisms take off.

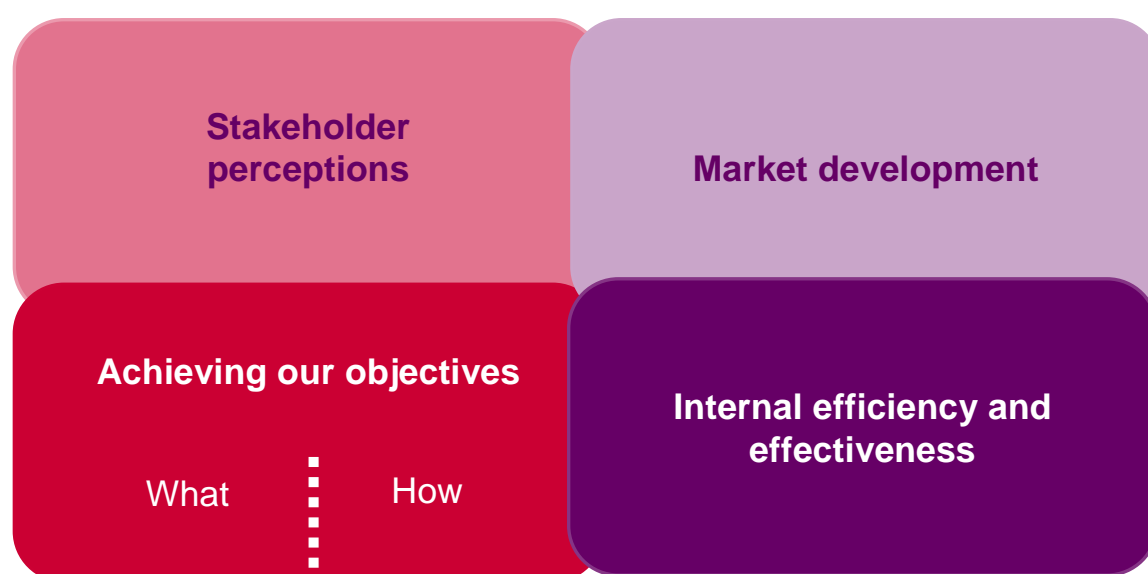
## **Evaluating our effectiveness**

5.15 Ofcom has developed a framework for evaluating its performance which comprises four key areas (see figure 5.2):

- Stakeholder perceptions – Ofcom has a programme of work which seeks feedback from all of our key stakeholders on a wide range of issues relating to how we perform, including for example, perceptions of our decision making, the quality of our outputs and how well we have consulted.
- Market development – Ofcom's success in achieving its policy objectives will be seen in the markets that we regulate. Our market research group tracks a wide range of market developments on a regular basis. Key indicators will be analysed and presented as an indicator of Ofcom's performance – while recognising that Ofcom is one of many factors influencing the market, and that there is a lead time before our policies become effective.

- Achieving our objectives – in this consultation document we have reaffirmed our commitment to our mission and regulatory principles. We will seek to evaluate how well these principles have been applied in our work, for example, the use we make of Impact Assessments, whether we are reducing – or adding to – regulation, and measuring whether we achieve the outcomes intended.
- Internal efficiency and effectiveness – this will include Key Performance Indicators (KPIs) relating to the service level that we deliver to those in direct contact with us, such as members of the public with complaints or small businesses seeking a routine licence. We will ask these service users for their opinions of the service level they received. In addition, we will present key financial and operating statistics.

**Figure 5.2: Ofcom's framework for evaluation**



## Section 6

# Responding to this consultation

- 6.1 Ofcom invites written views and comments on the issues raised in this document, to be made by **5pm on 3 March 2005**.
- 6.2 We prefer to receive responses as e-mail attachments, in Microsoft Word format, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 2), among other things to indicate whether or not there are confidentiality issues. The cover sheet can be downloaded from the 'Consultations' section of our website.
- 6.3 This document was produced by the Strategy Planning Team, under the guidance of Robin Foster, Partner, Strategy and Market Developments.
- 6.4 Please can you send your response to [geoff.delamere@ofcom.org.uk](mailto:geoff.delamere@ofcom.org.uk). Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.

Geoff Delamere  
Head of Strategy Planning  
Strategy and Market Developments  
Ofcom  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA

Fax: 020 7981 3706

- 6.5 Note that we do not need a hard copy in addition to an electronic version. Also note that Ofcom will not routinely acknowledge receipt of responses.
- 6.6 It would be helpful if your response could include direct answers to the following questions:

**Question 1:** *Do you agree with our outline proposals for our three year planning horizon?*

**Question 2:** *Do you agree with the broad priorities identified for 2005/6?*

**Question 3:** *Are there areas/issues not covered in this Plan which Ofcom should consider adding to its priorities?*

**Question 4:** *Have we identified properly the interests of different stakeholder groups, and the impact of our plan on those groups?*

**Question 5:** *Do you agree with our proposed level of resourcing?*

- 6.7 It would also help if you could explain why you hold your views, and how Ofcom's proposals would affect you.

## Further information

- 6.8 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Geoff Delamere on 020 7981 3404 or Alistair Bridge on 020 7783 4195.

## Confidentiality

- 6.9 Ofcom thinks it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk). We will do this on receipt of responses, unless respondents request otherwise on their response cover sheet.
- 6.10 All comments will be treated as non-confidential unless respondents specify that part or all of the response is confidential and should not be disclosed. Please place any confidential parts of a response in a separate annex, so that non-confidential parts may be published along with the respondent's identity.
- 6.11 Ofcom reserves its power to disclose any information it receives where this is required to carry out its functions. Ofcom will exercise due regard to the confidentiality of information supplied.
- 6.12 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use, to meet its legal requirements. Ofcom's approach on intellectual property rights is explained further on its website, at [www.ofcom.org.uk/about\\_ofcom/gov\\_accountability/disclaimer](http://www.ofcom.org.uk/about_ofcom/gov_accountability/disclaimer).

## Next steps

- 6.13 Following the end of the consultation period, Ofcom intends to publish the finalised Annual Plan for 2005/6 in April 2005.
- 6.14 Please note that you can register to get automatic notifications of when Ofcom documents are published, at [http://www.ofcom.org.uk/static/subscribe/select\\_list.htm](http://www.ofcom.org.uk/static/subscribe/select_list.htm).

## Ofcom's consultation processes

- 6.15 Ofcom is keen to make responding to consultations easy, and has published some consultation principles (see Annex 1) which it seeks to follow, including on the length of consultations.
- 6.16 In deciding on the length of the consultation period we have had to balance the need to allow our stakeholders as much time as possible to respond against the practical difficulty of planning our work for next year significantly in advance of the financial year beginning in April and the need to publish the finalised Annual Plan at the start of the financial year. This six week consultation is therefore shorter than Ofcom's standard ten weeks, but this will be compensated for by a series of meetings around the UK during the consultation period. These will provide an opportunity to hear Ofcom's plans, ask questions about them and convey your views directly and in person.
- 6.17 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or email us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk). We would particularly welcome thoughts on how

Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, whose views are less likely to be obtained in a formal consultation.

- 6.18 If you would like to discuss these issues, or Ofcom's consultation processes more generally, you can alternatively contact Philip Rutnam, Partner, Competition and Strategic Resources, who is Ofcom's consultation champion:

Philip Rutnam  
Ofcom  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA  
Tel: 020 7981 3585  
Fax: 020 7981 3333  
E-mail: [philip.rutnam@ofcom.org.uk](mailto:philip.rutnam@ofcom.org.uk)

## **Annex 1**

# **Ofcom's consultation principles**

A1.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

### **Before the consultation**

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

### **During the consultation**

2. We will be clear about who we are consulting, why, on what questions and for how long.
3. We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened version for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.
4. We will normally allow ten weeks for responses, other than on dispute resolution.
5. There will be a person within Ofcom who will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. This individual (who we call the consultation champion) will also be the main person to contact with views on the way we run our consultations.
6. If we are not able to follow one of these principles, we will explain why. This may be because a particular issue is urgent. If we need to reduce the amount of time we have set aside for a consultation, we will let those concerned know beforehand that this is a 'red flag consultation' which needs their urgent attention.

### **After the consultation**

7. We will look at each response carefully and with an open mind. We will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

## Annex 2

# Consultation response cover sheet

- A2.1 In the interests of transparency, we will publish all consultation responses in full on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), unless a respondent specifies that all or part of their response is confidential. We will also refer to the contents of a response when explaining our decision, without disclosing the specific information that you wish to remain confidential.
- A2.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response. This will speed up our processing of responses, and help to maintain confidentiality by allowing you to state very clearly what you don't want to be published. We will keep your completed cover sheets confidential.
- A2.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their cover sheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A2.4 We strongly prefer to receive responses in the form of a Microsoft Word attachment to an email. Our website therefore includes an electronic copy of this cover sheet, which you can download from the 'Consultations' section of our website.
- A2.5 Please put any confidential parts of your response in a separate annex to your response, so that they are clearly identified. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only so that we don't have to edit your response.

## Cover sheet for response to an Ofcom consultation

### BASIC DETAILS

**Consultation title:**

**To (Ofcom contact):**

**Name of respondent:**

**Representing (self or organisation/s):**

**Address (if not received by email):**

### CONFIDENTIALITY

**What do you want Ofcom to keep confidential?**

Nothing

☐

Name/address/contact  
details/job title

☐

Whole response

☐

Organisation

☐

Part of the response

☐

If there is no separate annex, which parts?

Note that Ofcom may still refer to the contents of responses in general terms, without disclosing specific information that is confidential. Ofcom also reserves its powers to disclose any information it receives where this is required to carry out its functions. Ofcom will exercise due regard to the confidentiality of information supplied.

### DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response. It can be published in full on Ofcom's website, unless otherwise specified on this cover sheet, and I authorise Ofcom to make use of the information in this response to meet its legal requirements. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

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

☐

Name

Signed (if hard copy)



## Annex 3

# Outline work programme for 2005/6

- A3.1 The list below sets out Ofcom's proposed work for 2005/6 in seven main categories:
1. Implementing the strategic reviews
  2. Opening up markets and encouraging innovation
  3. Addressing important citizen and consumer issues
  4. International engagement
  5. Taking opportunities to reduce regulation
  6. Working effectively
  7. Understanding future developments
- A3.2 Section 3 of the consultation document sets out the key priorities for 2005/6 – implementing the strategic reviews and addressing the other priority areas we have identified (categories 2 to 7 above). Details of the strands of work that fall within these categories are set out in figure A3.1. In many cases there are links between projects which will be taken into account by the project teams concerned.
- A3.3 The list of projects focuses on Ofcom's work which is externally facing. Internal support functions which underpin these activities are not described in any detail, although they are clearly important to Ofcom's operations.

**Figure A3.1 Ofcom 2005/6 proposed projects and programmes**

## 1. Implementing the strategic reviews

<b>Project</b>		<b>Objectives</b>
<b>Telecoms strategic review</b>  NB The proposed work to implement the review is subject to the outcome of our consultation on phase 2.	Telecoms review implementation	Monitor the overall implementation of the review to ensure that the conclusions reached are reflected in our ongoing work.
	Telecoms review co-ordination	Take forward the conclusions of the review by drafting specific policy statements and co-ordinating the resulting projects.
	Equivalence and governance	1. Preparatory work to achieve equivalence and behavioural change by BT, with further work dependent on our final conclusions. 2. Preparatory work for a possible Enterprise Act investigation. 3. Increase incentives on BT to comply with its regulatory obligations.
	Narrowband market reviews	Implement the telecoms strategic review through market reviews, removing regulation where appropriate.
	BT's 21 <sup>st</sup> Century Network (21CN)	1. Facilitate the migration to a 21CN through industry dialogue and intervention where necessary. 2. Develop a regulatory framework for 21CN.
	Network charge control	1. Implement (where appropriate) revised price controls for network services before the current controls end in September 2005. 2. Create a structure for charge controls that takes account of BT's change of network, and promotes market stability, incentives for investment and a pro-competitive outcome.
	Cost of copper	Assess the cost of access to BT's copper access network and create a framework to enable appropriate costs to be determined.
	Geographic market analysis	Develop a framework for analysing geographic markets at a sub-national level, focusing on the markets for wholesale broadband access, leased lines and wholesale call origination and transit.
	Carrier Pre-Selection and Wholesale Line Rental	Ensure fit-for-purpose wholesale line rental and carrier pre-selection products to promote effective competition in retail voice services.
	Wholesale broadband	Promote effective competition from network operators using BT's DataStream wholesale product.
	Local Loop Unbundling	Promote effective competition from network operators using Local Loop Unbundling.
	Voice over broadband	Facilitate the development of new voice services (such as voice over broadband), while ensuring that consumers are suitably informed and protected.

## 1. Implementing the strategic reviews

Project		Objectives
	Review of OfTel guidelines	Review and update OfTel guidelines on a range of regulatory matters, including access obligations, the Competition Act and telephone numbering.
<b>Public service television broadcasting (PSB) review</b>  NB The proposed work to implement the review is subject to the outcome of our consultation on phase 2.	Implementation	Ensure effective implementation of the PSB review recommendations through: <ul style="list-style-type: none"> <li>• input to the final stages of the commercial TV licence renewal work;</li> <li>• continuing dialogue with Channel 4;</li> <li>• more detailed work on the Public Service Publisher proposal;</li> <li>• input to the BBC Charter Review; and</li> <li>• a more converged approach to PSB by bringing together TV and radio work.</li> </ul>
	Tier 2 quotas	1. Set sustainable production and output quotas, taking account of the interests of citizens and consumers, as well as licensees' available resources. 2. Consider current quotas in the light of the reviews of PSB and the production sector and implement changes where appropriate.
	Tier 3 requirements	1. Allow ITV, Channel 4 and Five maximum scope to deliver effective self-assessment of compliance with their Tier 3 PSB requirements. 2. Develop Ofcom procedures for assessment and tracking of PSB delivery and a consistent framework for reporting publicly to citizen-consumers.
<b>Spectrum Framework Review</b>  NB The proposed work to implement the review is subject to the outcome of our consultation.	Implementation	Support achievement of a successfully functioning market in spectrum through: <ul style="list-style-type: none"> <li>• a strategic approach to new spectrum release;</li> <li>• tradable spectrum rights;</li> <li>• redefining spectrum rights; and</li> <li>• influencing developments in the international spectrum framework.</li> </ul> Further details of the work Ofcom will be doing in relation to spectrum are set out under priority 2.
<b>Radio review</b>	Radio Review Implementation	Refine our view of how best to achieve 'public purposes' in radio, develop a plan for licensing further digital radio, implement the new analogue localness regulations and work with Europe to promote digital radio.
	Develop our approach to radio regulation	1. Oversee output regulation of localness. 2. Deepen our understanding of radio content, including different music and speech formats, to underpin format regulation. 3. Respond to complaints about format 'drift' and lack of required local content.

## 2. Opening up markets and encouraging innovation

<b>Project</b>		<b>Objectives</b>
<b>Promoting competition in broadcasting</b>	Review of broadcasting competition	Develop overall strategic framework within which to take key competition and regulatory decisions about broadcasting markets over the next 2 to 3 years, taking account of consumer demands, market structures, emerging gateways, the competitive environment, rights management and State Aid rules.
	Channel 3 competition issues	1. Ensure Ofcom effectively fulfils our statutory duties in relation to Channel 3 competition issues, including implementation of a new set of networking arrangements. 2. Determine whether it is necessary to review the operation of the Contract Rights Renewal remedy and the TV advertising market more generally.
<b>Telecoms issues not directly related to the strategic review</b>	Internet and Number Translation Services (NTS)	Promote competition and innovation in the provision of NTS and narrowband Internet access, while ensuring adequate consumer protection and information.
	Mobile call termination market review	Define an appropriate remedy – whether market-based or regulatory – to address any continued positions of significant market power in mobile termination.
	Wholesale international roaming market review	1. Review the wholesale international roaming market. 2. Play a leading role in developing European Regulators Group's thinking in this area.
	Regulatory finance programme	Develop a more fit for purpose financial reporting regime to address specific bottlenecks and to provide improved information for ex post interventions.
	Investigations programme	1. Reduce and deter anti-competitive behaviour by investigating complaints. 2. Directly protect consumers by targeted enforcement of consumer protection legislation.
	Number allocation and policy development	1. Allocate telephone numbers and effectively manage the available UK numbering resource. 2. Ensure that the UK harmonises where possible with European and international numbering developments, and seek to ensure that these developments are in the best interests of UK consumers. 3. Formalise numbering administration procedures for the Channel Islands and the Isle of Man. 4. Implement a new and more efficient number allocation database. 5. Ensure that the UK has a future-proof numbering strategy. 6. Maximise the scope for number portability to enhance fixed and mobile competition in

## 2. Opening up markets and encouraging innovation

Project		Objectives
<b>Releasing spectrum and promoting efficient use of spectrum</b>	Spectrum awards, trading and spectrum liberalisation – policy development and implementation	<p>the UK.</p> <ol style="list-style-type: none"> <li>1. Increase awareness, knowledge and understanding of the opportunities created by spectrum trading.</li> <li>2. Introduce spectrum trading for wide area Private Business Radio and digital Public Access Mobile Radio.</li> <li>3. Deliver a programme of new spectrum awards, including through auctions of some spectrum bands.</li> <li>4. Preparatory work to allow trading to be extended to other licence classes in 2006 and 2007.</li> <li>5. Define benchmark interference levels for licences.</li> <li>6. Consolidate existing business radio licence classes.</li> <li>7. Develop a coherent approach to the management of spectrum designated for mobile and broadband services.</li> <li>8. Work on licence exemption regulations.</li> </ol>
	Digital Switchover	<ol style="list-style-type: none"> <li>1. Ensure mechanisms in place to achieve switchover between 2007 and 2012 and that the resulting release of spectrum is dealt with in a way that is market driven as far as possible and consistent with Ofcom's strategic approach.</li> <li>2. Ensure that the implications for the TV broadcasting, manufacturing and distribution industries are handled in a co-ordinated way.</li> </ol>
	Spectrum pricing	<p>Prepare proposals relating to:</p> <ul style="list-style-type: none"> <li>• the application of administrative incentive pricing to TV and radio broadcasting; and</li> <li>• trading and liberalisation.</li> </ul>
	Recognised spectrum access (RSA)	Address issues relating to the introduction of Recognised Spectrum Access for satellite services.
	National spectrum allocation policy	<ol style="list-style-type: none"> <li>1. Increase the amount of spectrum available for release by Ofcom.</li> <li>2. Maintain an authoritative record of spectrum allocations.</li> <li>3. Ensure adequate protection for existing users and manage the relationship with the Ministry of Defence as holders of significant spectrum resources.</li> </ol>
	Independent audit of major spectrum holdings	Support the independent audit of major spectrum holdings being undertaken by Professor Martin Cave.
	Spectrum Access Programme	Licence spectrum to users, collect income and deal with customers queries.
<b>Spectrum monitoring and enforcement</b>	Field Operations	<ol style="list-style-type: none"> <li>1. Keep spectrum clear of interference through light touch enforcement.</li> <li>2. Ensure that the spectrum assets are fit for purpose and available to those who need</li> </ol>

## 2. Opening up markets and encouraging innovation

Project		Objectives
		<p>them.</p> <p>3. Make best use of remote monitoring and direction finding, as well as unattended monitoring systems.</p>
	Baldock Monitoring Station Programme	<p>1. Develop new spectrum monitoring services to support Ofcom's strategic objective of moving away from a centralised command and control model towards spectrum management led by the market.</p> <p>2. Maintain a 24 hours a day central interference reporting and resolution team for national and international interference complaints.</p> <p>3. Provide a specialist interference investigation service.</p>
<b>Radio &amp; TV broadcasting</b>	Radio licensing	<p>1. Successful and timely award of new commercial analogue FM licences.</p> <p>2. Complete first-round award of new Community Radio Licences and start second round.</p> <p>3. Start making grants from the Community Radio Fund once established.</p> <p>4. Maintain throughput of Restricted Service Licences.</p> <p>5. Technical work to maintain licensed services.</p> <p>6. Respond to digital licensing requests.</p>
	Support for radio licensing	<p>1. Provide appropriate advice to the Radio Licensing Committee on the feasibility, desirability and impact of proposed formats for FM/AM new licences.</p> <p>2. Provide appropriate content-related advice about Community Radio Applications.</p> <p>3. Conduct timely consultations and provide advice about change of formats.</p>
	TV licensing	<p>1. License TV services across all platforms efficiently.</p> <p>2. Restructure the Wireless Telegraphy Act licences and pricing arrangements.</p>

### 3. Addressing important citizen and consumer issues

Project		Objectives
Key priorities	Universal service	1. Ensure that basic telephony services are available to everybody upon reasonable request and at an affordable price. 2. Feed into 2005/2006 EC review of the Universal Service Directive.
	Media literacy agenda setting	Identify areas of concern relating to emerging communications technology and services, particularly relating to fixed and mobile internet content, and encourage public debate.
	Media literacy labelling	Establish viewer preferences with regard to information about audio visual content.
	Protection of children from harmful content including revision of ad rules concerning food and children	1. Work to understand and assess options for protecting children from harmful content in broadcast and other media. 2. Together with the newly-formed Broadcasting Committee of Advertising Practice (BCAP), complete a review of the BCAP's Broadcast Advertising Standards Code relating to food advertising to children.
	Consumer information	Implement Ofcom's approach to the provision of information to citizens and consumers, the key element being encouraging communications providers to supply information to their customers to enable them to make informed decisions, take advantage of choice and more effectively seek redress when things go wrong.
	Consumer protection	Ensure that consumers are protected from a range of potential nuisances, that they are aware of their rights and that they have access to services that communications providers should supply. Review consumer protection measures to ensure that they continue to be necessary.
Radio and television	Media Ownership Review	Review of the media ownership rules contained in the Communications Act, focusing on how they are working in practice.
	Plan for reviews in event of change of control of radio licences	Carry out speedy and authoritative reviews in the event of the change of control of radio licences.
	TV Access Code	1. Review code to ensure appropriate provision of access services by broadcasters. 2. Provide standards guidance. 3. Set statutory audio description target.
	Electronic Programme Guide Code (EPGs)	Ensure that the Code on EPGs effectively implements Ofcom's statutory obligations e.g. on appropriate prominence for PSBs and on accessibility.
	Revised rules on advertising	Revise rules on the amount and distribution of advertising.

### 3. Addressing important citizen and consumer issues

<b>Project</b>		<b>Objectives</b>
<b>Developing the regulatory framework</b>	Implement advertising co-regulation	Monitor the performance and effectiveness of the Advertising Standards Authority and the new Broadcast Committee of Advertising Practice in relation to the contracted-out activities of broadcast advertising regulation.
	Implement broadcast training co-regulation	Implement the proposals for a co-regulatory system for training and development in broadcasting.
<b>Serving citizens and consumers</b>	Ofcom Contact Centre	<ol style="list-style-type: none"> <li>1. Provide a high quality service in response to complaints from a broad range of viewers, listeners, customers of telecoms companies and users of wireless services.</li> <li>2. Put pressure on suppliers to resolve complaints directly and first time with their customers.</li> <li>3. Develop contact centre processes to maximise operational efficiency.</li> </ol>
	Review complaint & sanctions process	<ol style="list-style-type: none"> <li>1. Encourage broadcasters to handle appropriate content complaints in the first instance ('broadcaster first').</li> <li>2. Develop and implement effective procedures for handling complaints about standards, fairness and privacy and in relation to sanctions.</li> </ol>
	Encouraging the development of equipment and services that are easy for consumers to use	Working with partners in the private and public sectors, identify future priorities for action in consultation with the Consumer Panel and the Advisory Committee on Older and Disabled People.



## 4. International engagement

Projects	Objectives
EU and International Relations	Plan and implement a programme of EU and international relations.
International and European Spectrum Policy	<ol style="list-style-type: none"> <li>1. Seek European decisions (EU and CEPT) consistent with our spectrum framework review.</li> <li>2. Seek an international framework, European and global, which facilitates a light-touch framework with the minimum regulatory constraints.</li> <li>3. Develop co-operative relationships with other countries to maximise influence and support.</li> </ol>
International telecoms policy	In general, promote a harmonised EU approach in the implementation of electronic communications legislation.
Working with IRG and ERG	<p>Ensure Ofcom continues to engage with the further development of electronic communications policy in the EU. Specifically, increase Ofcom's commitment to the European Regulators' Group (ERG) and the Independent Regulators' Group (IRG) by:</p> <ul style="list-style-type: none"> <li>• contributing to the debate about how to increase the two groups' effectiveness (despite their increasing size);</li> <li>• supporting any consequent changes to the procedures of ERG and IRG with the necessary resources.</li> </ul>
Regional radio conference 2006	Seek to achieve a new ITU Plan for digital broadcasting that fully meets UK/Ofcom needs, including adequate provision for digital radio and television broadcasting, realising the 'digital dividend' and protecting the interests of other users of the broadcasting spectrum.
Review of Television Without Frontiers (TWF) Directive	Contribute to the development of an appropriately revised TWF Directive.
International Policy	Contribute to the UK Presidency of the EU in 2005, involving all relevant Ofcom activities on an integrated basis.

## 5. Taking opportunities to reduce regulation

Projects	Objectives
Reducing the burden of regulation	<p>1. Across all projects look for opportunities to reduce regulation. The following are examples of areas where it may be possible to reduce regulation:</p> <ul style="list-style-type: none"> <li>the spectrum framework review is expected to lead to spectrum licences being changed to allow more trading and more flexible use;</li> <li>our 'broadcaster first' initiative should result in fewer broadcasting complaints being resolved by the regulator;</li> <li>implementation of the telecoms strategic review may lead to exploration of de-regulation of BT's large business pricing and retail price controls;</li> <li>our review of public service broadcasting will result in a move away from genre-by-genre quotas to a new approach based on "purposes and values", with specific obligations on commercial broadcasters also likely to be reduced.</li> </ul> <p>2. Identify and realise opportunities to reduce regulation, with a particular focus on ensuring that market opening initiatives are not obstructed.</p> <p>3. Assess Ofcom's success in reducing the burden of regulation.</p> <p>4. Align regulatory interventions to Ofcom regulatory principles.</p> <p>5. Develop effective working relationships with self- and co-regulatory bodies.</p>
Impact assessments	Roll-out and implement our guidelines on impact assessments, a key part of which will be constructive engagement with stakeholders.
Convergence	Develop an understanding of convergence and what it might mean for the future of the communications market, thus enabling Ofcom to regulate in a more converged way and to identify opportunities for de-regulation that may be forthcoming.
Regulatory Approach	<p>Assess developments in regulatory thinking and practice in the UK and around the world, not just in the communications sector, focusing in particular on:</p> <ul style="list-style-type: none"> <li>reasons for intervention in markets where the existence of significant market power is not the determining factor; and</li> <li>models of regulatory funding in dynamic, changing markets.</li> </ul>
Innovation	Consider Ofcom's role in stimulating innovation, considering the possible actions it could take and how the duty to encourage innovation should be balanced against other duties.
Economic peer reviews	Ensure Ofcom's economic analysis is robust and defensible by providing an independent internal review process that challenges economic analysis and ensures a range of options have been considered. In particular, any proposals for increased regulation should be subjected to rigorous scrutiny.

## 6. Working effectively

<b>Projects</b>		<b>Objectives</b>
<b>Developmental research</b>	Audit of Nations and Regions	Analyse the current state of the communications sector by Nation and by Region and assess how our regulatory approach should be tailored to each Nation and Region.
	Digital rights	Investigate how premium TV, film & music services could further broadband take up and the potential barriers to the development of these services.
	Content technology	Track key technological developments and identify their potential impact on the consumer, the market and regulation e.g. mobile multi-media technologies, High Definition TV and Personal Video Recorders.
<b>Evidence base for policy-making</b>	Technology based analysis	<ol style="list-style-type: none"> <li>1. Understand emerging technologies and platforms.</li> <li>2. Minimise spectrum interference and maximise the availability of spectrum.</li> <li>3. Resolve technical issues associated with network resilience and interoperability.</li> </ol>
	Market research and intelligence	<ol style="list-style-type: none"> <li>1. Conduct research to provide the evidence for policy development across Ofcom.</li> <li>2. Gain a greater understanding of key attitudinal, behavioural and demographic/lifestyle differences across consumers and SMEs.</li> <li>3. Communicate to Ofcom stakeholders the state of the communications market.</li> </ol>
<b>Cross-Ofcom policy support</b>	Experience of implementing the Communications Act	Identify challenges in implementing the Communications Act and how these could be addressed.
	Strategic Plan	Set out Ofcom's key strategic operating priorities and plans for 2006/7 (and the following 2 to 3 years), its approach to regulation, future strategic thinking and financial status.
	Evaluation	<ol style="list-style-type: none"> <li>1. Evaluate Ofcom's performance and further develop the evaluation framework.</li> <li>2. Measure and monitor the full range of stakeholders' views of Ofcom in a consistent and comparable manner.</li> </ol>
	Liaison and engagement with Consumer Panel, National and other advisory committees	Ensure cross Ofcom engagement with Ofcom's panels and advisory committees to ensure that stakeholder groups can engage fully with Ofcom.
	Public, political and industry relations	Manage and implement a programme of public, political and industry relations.
	Diversity	<ol style="list-style-type: none"> <li>1. Implement and manage an internal integrated diversity strategy.</li> <li>2. Complete a Welsh Language Scheme to be agreed with the Welsh Language Board.</li> <li>3. Complete an equality scheme under the Northern Ireland Act.</li> </ol>

## 7. Understanding future developments

Project	Objectives
Second generation broadband	<ol style="list-style-type: none"> <li>1. Identify incentives and barriers to roll-out of second generation broadband, including content and digital rights issues.</li> <li>2. Map out a clear role for Ofcom in supporting an appropriate level of broadband development.</li> </ol>
Evolution of digital multi-media platforms & the implications for regulation	Ensure Ofcom understands likely developments in digital platforms and services and produce a framework to address the emerging regulatory and policy challenges – covering content delivery across different platforms, business models, consumer demand and options for regulation.
Review of content production and the independent sector	<ol style="list-style-type: none"> <li>1. Review the structure of the UK broadcasting content production sector, the prospects for growth, sources of funding, impact of regulation and the implications for future content production and regulation.</li> <li>2. In conjunction with the broader strategic review, carry out an assessment of current definitions of “qualifying independent” and “qualifying programmes”, review the operation of the 25% independent quota and codes of practice .</li> </ol>

## Annex 4

# Ofcom's launch costs

- A4.1 In this Annex we reiterate the background regarding Ofcom's launch costs, which was set out in Ofcom's Draft Statement of Charging Principles.
- A4.2 The initial costs incurred by Ofcom since its establishment under the Office of Communications Act 2002 have been met through loan funding of (GBP) £52.3m from the Department of Trade and Industry. These loans, which were made in the period from 31 March 2003 to 2 January 2004, are repayable in the period from March 2004 to March 2008.
- A4.3 The phasing of repayments is determined under the loan agreement with the DTI. We have allocated the launch costs for the complete repayment period until March 2008 on a proportionate basis to the amount of expenditure incurred by the legacy regulators in each Regulatory Sector. The result of this allocation is shown in Table A4.1.

**Table A4.1 Loan repayments**

Loan repayments (inc. interest)	2003/4 £' 000	2004/5 £' 000	2005/6 £' 000	2006/7 £' 000	2007/8 £' 000	Total £' 000
Networks & Services		2,723	2,592	2,672	2,560	10,547
TV Broadcasting		2,578	2,454	2,530	2,423	9,985
Radio		403	383	395	379	1,560
Other Sectors	7,328	13,948	13,425			34,701
<b>Total</b>	<b>7,328</b>	<b>19,652</b>	<b>18,854</b>	<b>5,597</b>	<b>5,362</b>	<b>56,793</b>

- A4.4 The recovery of these allocated costs is part of the costs for each Regulatory Sector or Tier.