

Ofcom

Open Day A User's Guide to Ofcom

Riverside House
16 December 2003

David Currie
Stephen Carter

Who's Here

OFCOM		GUESTS
David Currie	Chairman	Consumer groups
Stephen Carter	Chief Executive	
Jackie Caspary	Head of Ofcom Contact Centre	Representatives of companies regulated by Ofcom
Richard Hooper	Deputy Chairman and Content Board Chairman	
Graham Howell	Secretary to the Corporation	
Sandra Jenner	HR Director	National media
Kip Meek	Board Member	
Helen Normoyle	Director of Market Research	Trade media
Matt Peacock	Director of Communications	
Ed Richards	Board Member	
Tony Stoller	Director of External Relations	
Kate Stross	Commercial Director	
Tim Suter	Partner, Content & Standards	Market commentators and analysts
Sean Williams	Partner, Competition & Investigations	

What we will cover

- Why Ofcom?
- Principles, values and processes
- Key activities and work plan 2004-05
- How we work
- The numbers
- Conclusion

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Why Ofcom?

Communications markets

- Convergence in communications industries
- UK communications industry turnover +£40bn
- Competition, price, quality and innovation compare well with other countries; but in some areas we are falling behind
- Consumers enjoy benefits of a range of services; but some are badly informed, face high switching costs or are not interested in choice
- Investor sentiment improving post-market restructuring, but major challenges remain

Parliamentary response

- White Paper December 2000: recognised that convergence in markets needed to be reflected in regulation
- Office of Communications Act 2002
- Communications Bill
 - 17 days of debate
 - 26 Commons Standing Committee sessions
 - More than 300 industry submissions
 - More than 500 amendments tabled
- Communications Act 2003
 - 263 statutory duties
 - But not a consolidating piece of legislation

Why Ofcom?

- Eliminates double jeopardy – different regulators reaching different decisions on the same issue; EPGs or Conditional Access
- Single point of contact for citizen-consumer issues across the whole communications sector
 - Ofcom Contact Centre helps consumers emailing/calling with:
 - Spectrum licensing requests and applications
 - TV complaints
 - Radio complaints
 - Telecoms complaints
 - Spectrum interference complaints
- A regulator able to champion the needs of the citizen-consumer in era of global players, with scale and scope in strategy, research and technology
- Not the product of sector crisis and/or regulatory failure
- A mid-point between the private and public sectors – not civil servants

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Principles, values and processes

Statutory framework

- Independent statutory corporation
- Unitary Board – not DG, Members or Commission
- The Chairman, CEO, Part-time Board Members (5), Executive Board Members (2)
- Content Board, Advisory Committees, National Committees
- Accountable under statute to Parliament (Standing Select Committees), not reporting to Ministers
- PAC, NAO, external auditors
- The Consumer Panel

Principles, values and processes

Our Foundation

To further the interests of citizen-consumers,
through a regulatory regime which,
where appropriate, encourages competition

Principles, values and processes

Regulatory Principles

1. Regulate with a clearly articulated and publicly reviewed Annual Plan, with stated policy objectives
2. Intervene where there is a specific statutory duty to work towards a public policy goal which markets alone cannot achieve
3. Operate with a bias against intervention, but with a willingness to intervene firmly, promptly and effectively where required
4. Strive to ensure our interventions will be evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome
5. Always seek the least intrusive regulatory mechanisms to achieve our policy objectives
6. Research markets constantly and will aim to remain at the forefront of technological understanding
7. Consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation upon a market

Principles, values and processes

What will good look like?

- Measure us by growth in the sector:
 - in consumer choice and value...
 - in investment...
 - in innovation...
 - in applications and creativity...
 - in citizen-consumer understanding...
 - in access, both in price and content
 - ... **NOT growth in regulation!**
- Our stewardship
- Analogue → Digital
Voice → Data
Narrowband → Broadband
Mobile → Wireless
Spectrum economy → spectrum demand

Principles, values and processes

What will good look like?

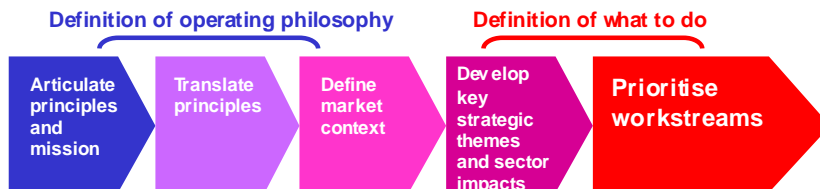
In approach we will be:

- An enabling organisation, not purely a proscribing organisation
- Evidence and research-based
- As open and accountable as due process allows
- Strategic; attempt to converge our spectrum and content responsibilities
- Fascinated by technology and its potential to create access and innovation
- Rigorous on compliance and equally so on complaints and disputes

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From principles → workstreams



How can we ensure that Ofcom's mission and principles are effectively addressed and illustrated by the key themes and priorities?

How will we translate our principles into concrete actions?
How will Ofcom act differently from the legacy regulators?

What are the key trends, developments and potential events in the sector and what are the challenges for Ofcom?

What are the major themes and objectives that will enable Ofcom to respond to market challenges?
What are the tough decisions we will have to take?

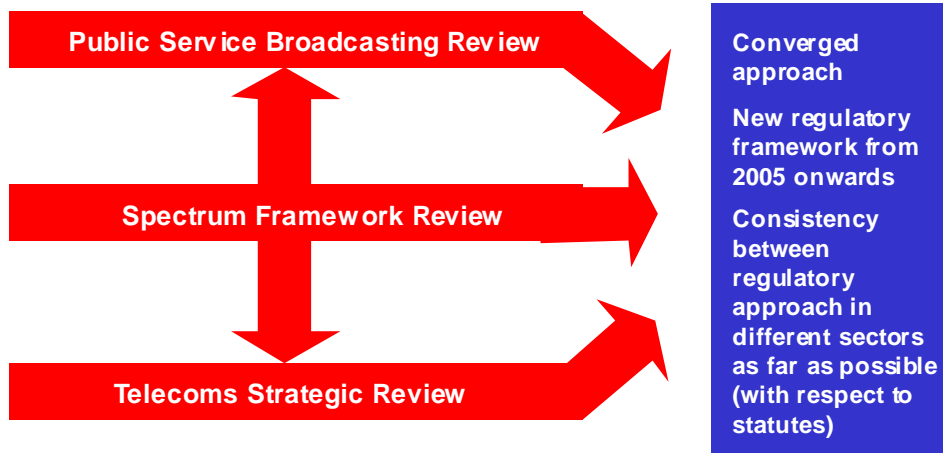
What are the priorities for 2004-05?
How do we achieve an appropriate cross-sector balance?

NB Process conducted under compressed timetable this year in order to be operative by Jan 2004

Annual Plan 2004-05

- Detailed proposed work plan being finalised over Christmas
- Full Annual Plan published for consultation on January 19 2004
- Ofcom Annual Plan Roadshow :
 - January – March
 - London, Manchester, Cardiff, Belfast, Glasgow
- Consultation to close 8 March 2004
- Annual Plan 04-05 published 5 April 2004
- Workstreams to run from April 2004 – April 2005

3 major Reviews already underway



Key activities

Policy projects

- Plan for digital switchover
- Review of digital radio
- New commercial radio licensing framework
- Issue new digital TV licences
- Review licence terms of C3 and 5
- Review of local loop unbundling
- Network charge control review
- Review of USO
- Implement spectrum trading and new pricing regime
- Prepare for and influence international spectrum policy, including preparations for 2007

Operational projects

- Review technology and market/consumer research programmes under Ofcom, to support evidence-based regulations
- Enhance spectrum monitoring and enforcement
- Re-engineer licensing functions
- Identify and introduce improved database structure for customer contacts and case management
- Define Ofcom needs for an electronic records management system

Key Reviews

- A1. Public Service Broadcasting Review
- A2. Telecoms Strategy Review
- A3. Strategic review of spectrum framework

Encourage evolution of electronic media and communication networks	Support the need for innovators, creators and investors to flourish by promoting competition	Foster plurality, inform and protect citizen-consumers, and promote cultural diversity	Serve interests of citizen-consumers
<p>B1. Drive digital switchover</p> <ul style="list-style-type: none"> - Television - Radio <p>B2. Advance broadband development</p> <ul style="list-style-type: none"> - Broadband spectrum access - Competition in fixed telecoms (broadband) - Next generation networks - Digital rights management - Citizenship concerns 	<p>C1. Promote competition</p> <ul style="list-style-type: none"> - Individual market reviews - LLU - Wholesale line rental - Network charge control <p>C2. Conduct investigations</p> <ul style="list-style-type: none"> - Competition case investigations <p>C3. Enable value added use of spectrum</p> <ul style="list-style-type: none"> - Implementing spectrum trading - Spectrum clearance - Spectrum pricing <p>C4. Spectrum licensing, monitoring and enforcement</p>	<p>D1. Develop new licensing regime to foster self-regulation and broaden citizen choice</p> <p>D2. Implement changes to broadcasting content regulation to deliver additional citizen benefits</p> <ul style="list-style-type: none"> - Increased quality - Improved access <p>D3. Develop and implement co-regulation</p> <ul style="list-style-type: none"> - Co-regulation of broadcasting advertising - Premium rate services 	<p>E1. Protect the interest of the citizen-consumer support</p> <ul style="list-style-type: none"> - Ease-of-use initiatives - Telephone numbering - Consumer Panel <p>E2. Promote informed citizens and consumers</p> <p>E3. Deal effectively with citizen-consumer complaints</p> <ul style="list-style-type: none"> - Ofcom Contact Centre - Investigation and enforcement re consumer issues <p>E4. Review the Universal Service Obligation for telecoms</p>

Overall framework and processes of regulation			
F1. Provide best-in-class research and market intelligence (evidence base)	F2. Establish effective network for External Relations – regional, national, international	F3. Strategic planning, evaluations and independent review process	F4. Improve efficiency of Ofcom's services to stakeholders
F5. Provide effective internal support processes - HR, Commercial		F6. Communicate effectively both internally and externally	

What we do – example 1

Major consultation – spectrum trading

Inputs

- Informal engagement with stakeholders
- Workshops
- Research
- Formal public consultation
- Industry and public seminars

Issues

- Spectrum scarcity
- Top-down approach not meeting market need
- Barriers to entry too high/slow
- Loss of opportunity for innovators

Potential outcomes

- More efficient use of finite resource
- New services from new entrants
- Lower costs for spectrum licenceholders
- Ability to release value from under-used spectrum
- Greater choice and value for end-users

What we do – example 2

Major project – Carlton and Granada merger

Inputs

- Sector analysis and research
- Formal industry engagement
- Activity concurrent with OFT
- Industry seminars

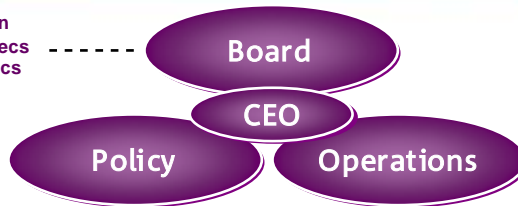
Issues

- Public policy requirement for reinvigorated ITV to meet PSB obligations for benefit of viewers
- Need to protect other ITV licensees
- Need to ensure fair and effective competition in airtime sales market

Outcomes

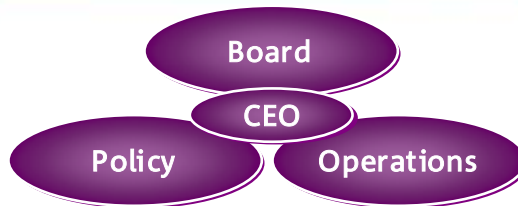
- Structural remedy to protect advertising community and other ITV licensees
- Consultation on airtime sales → safeguards under competition law
- Merged ITV committed to delivering better programming for viewers

Chairman
CEO + 2 Execs
5 Non-Execs



Ofcom Executive

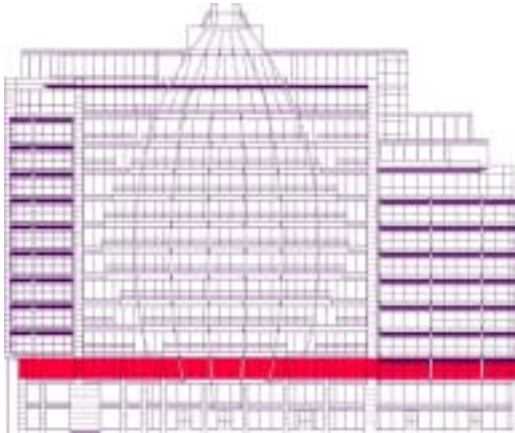
Strategy and Market Developments	Competition and Markets	Content and Standards	Operations	Commercial	HR	Secretariat	External Relations	Comms
<ul style="list-style-type: none"> • Strategy Development • Audience, Consumer and Market Research • Technology • Chief Economist 	<ul style="list-style-type: none"> • Competition Policy and Compliance • Scarce Resources 	<ul style="list-style-type: none"> • Tier 1 Broadcasting Regulation • Public Service Broadcasting and Radio Formats • Consumer Policy and Media Literacy 	<ul style="list-style-type: none"> • Ofcom Contact Centre (OCC) • Licensing • Field Operations • Operations and Development Support Team 	<ul style="list-style-type: none"> • Finance • Information Services (IS) • Facilities 	<ul style="list-style-type: none"> • Business Support • Professional Development • Policy • HR Operations 	<ul style="list-style-type: none"> • Secretariat • Legal 	<ul style="list-style-type: none"> • Ofcom for Northern Ireland • Ofcom for Scotland • Ofcom for Wales • Ofcom for the English Regions • The Public Affairs and Industry Relations Teams 	<ul style="list-style-type: none"> • Media Office • Publications and Events • Internal Communications



Ofcom Executive

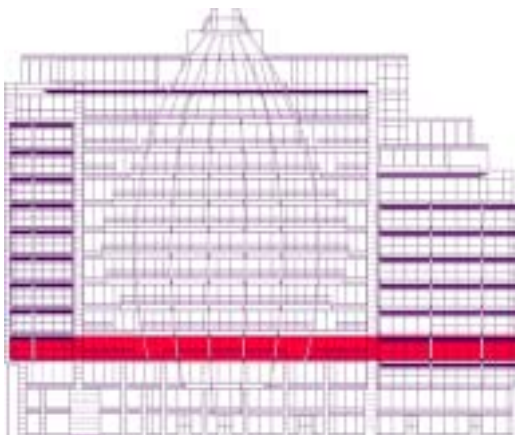
Strategy and Market Developments	Competition and Markets	Content and Standards	Operations	Commercial	HR	Secretariat	External Relations	Comms
<ul style="list-style-type: none"> • Strategic development and analysis • Policy development • Research • Technology strategy • Advice to the Consumer Panel 	<ul style="list-style-type: none"> • Issuing broadcast and spectrum licences • Spectrum allocation and policy • Telephone numbering • Competition and compliance case work • Competition policy 	<ul style="list-style-type: none"> • Policing of Codes • Broadcast advertising • Standards and privacy complaints • Regulation of radio formats • Promotion of media literacy 	<ul style="list-style-type: none"> • Entry point for enquiries and complaints • Resolution of telecoms / broadcasting / licensing issues • Electronic service delivery to customers • Spectrum interference • Enforcement 	<ul style="list-style-type: none"> • Planning, budgeting and management of funding needs • Support and development of Information Systems • Working environment in offices 	<ul style="list-style-type: none"> • Expert guidance to line managers on HR and people management • Induction and professional development • Specialist employment law advice • HR Information Systems 	<ul style="list-style-type: none"> • Legal advice and best practice • Corporate governance • Board and Committee admin 	<ul style="list-style-type: none"> • Management of political and public policy relations, industry relations and international relations • Relationships with territorial offices of relevant Secretaries of State 	<ul style="list-style-type: none"> • Relationships with national, international and specialist trade media • Internal comms • Publications and all other direct-to-consumer comms activity

How we work



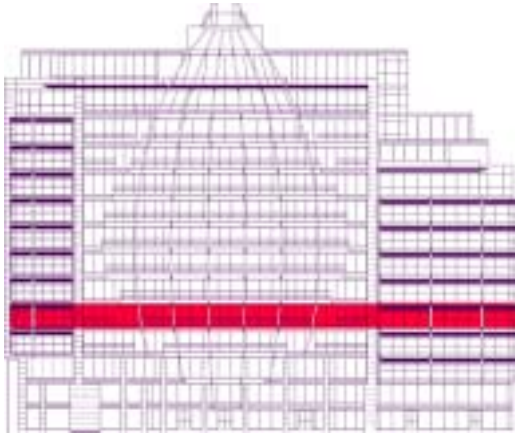
- **Ofcom Contact Centre**
- **Expected to handle c. 250k calls and emails a year**
- **Combination of:**
 - Programme complaints
 - Telecoms complaints
 - Interference complaints
 - Radiocommunications licensing
- **Facilities**

How we work



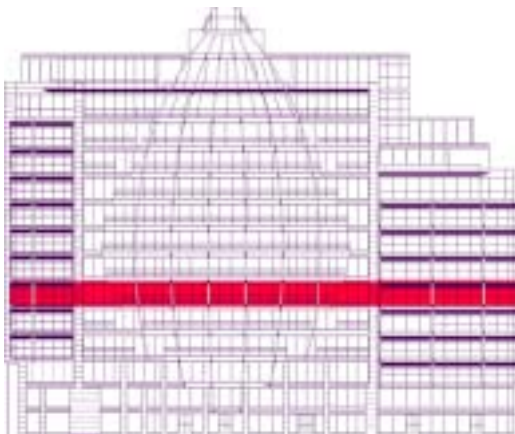
- **Media Monitoring Suite**
 - Audio visual equipment for broadcast monitoring
- **Knowledge Centre**
 - Specialist technical documents, periodicals, research
- **Meeting Rooms for Stakeholders**

How we work



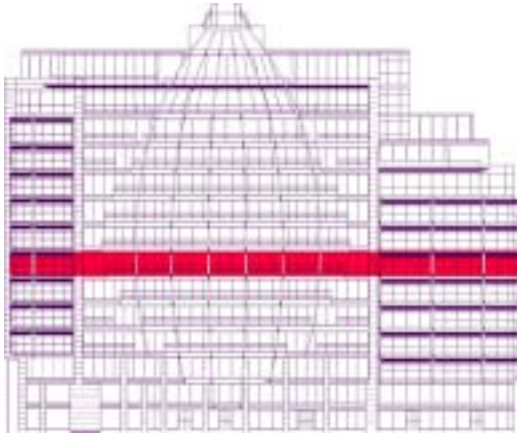
- **Licensing**
 - Serving c. 210,000 radiocommunications licenceholders
- **Operations Development and Support**
 - Managing systems used to handle large-volume citizen-consumer contacts
- **Field Operations**
 - Keeping the spectrum clean
 - Compliance, interference, enforcement

How we work



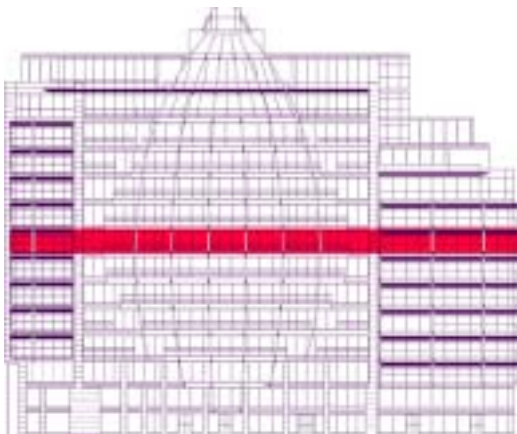
- **Competition & Markets**
 - Competition Policy, Compliance and Investigations
 - Strategic Resources
 - Spectrum Policy
 - Single large group; project teams created on per-case basis
- **Human Resources**
 - Business support
 - Professional development

How we work



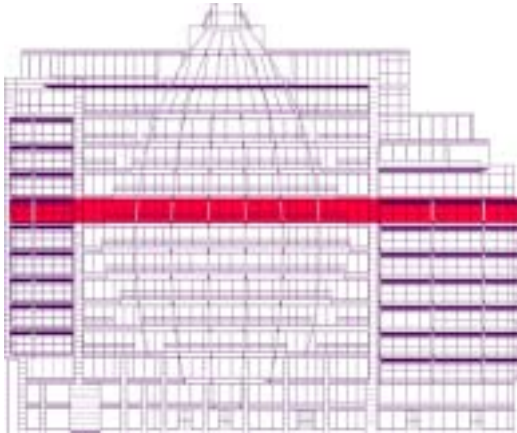
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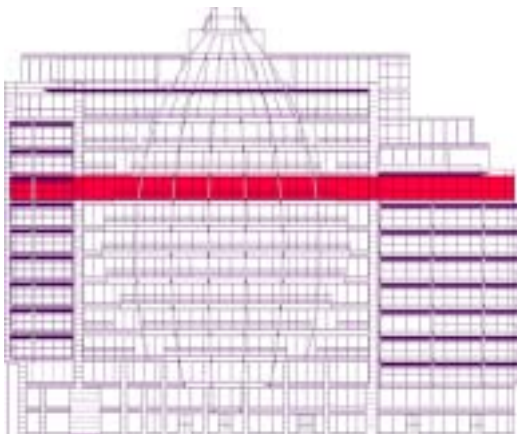
- **Content & Standards**
 - Tier 1 Broadcasting Codes
 - PSB and Radio Formats
 - Informed Consumer policy
 - Media Literacy
- **Ofcom Boards and support**
 - Secretariat support for Board, Content Board and Executive

How we work



- **Strategy & Market Developments**
 - Strategy Development
 - Market Research
 - Technology, R&D
 - Chief Economist team

How we work



- **Commercial**
 - Finance, IS, Facilities
- **External Relations**
 - Public Affairs, Industry Relations
 - Nations and Regions
- **Communications**
 - Media Office, Internal Comms
 - Publications and Events
- **Office of the CEO and Chairman**
- **Secretariat**
- **Independent Standing Counsel**

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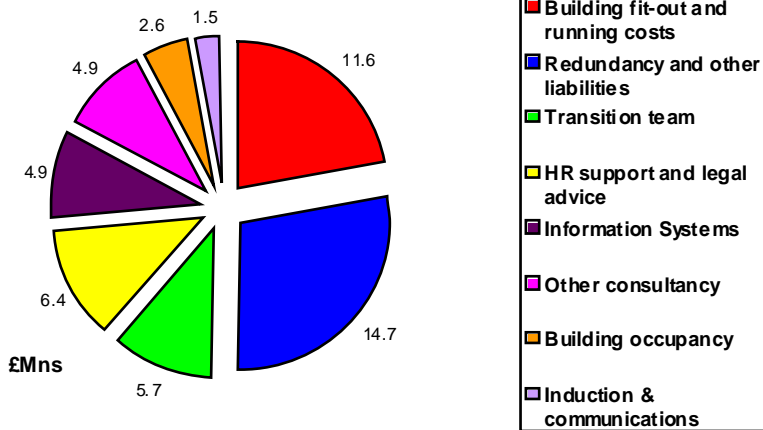
The transition to Ofcom

- Existing regulator colleagues selected for Ofcom roles through job matching process
- Resource-intensive management process throughout Summer and Autumn 2003
- Removed duplication in many areas, whilst retaining regulatory experience and skills:
 - 740 colleagues joined Ofcom from the regulators
 - 74% signed up under Ofcom Offer terms and conditions
 - 150 new colleagues from range of backgrounds (60 in post, 90 vacancies)

Building Ofcom

Cost of transition

£52.3m budget to cover set-up, transition and inherited liabilities October 2002 to December 2003



A leaner organisation

Location efficiencies

	Number of UK premises*
BSC	1
ITC	10
Radio Authority	1
Oftel	2
RA	22
LEGACY TOTAL	36
OFCOM TOTAL	20

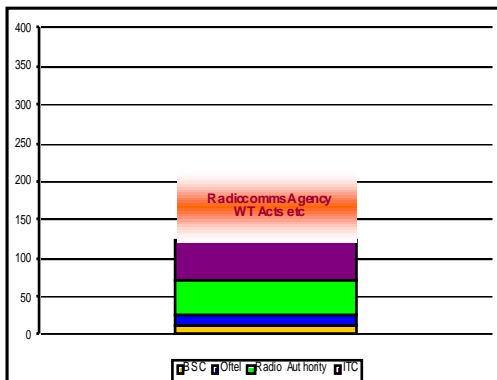
*Includes small Field Operations offices across UK

Summary

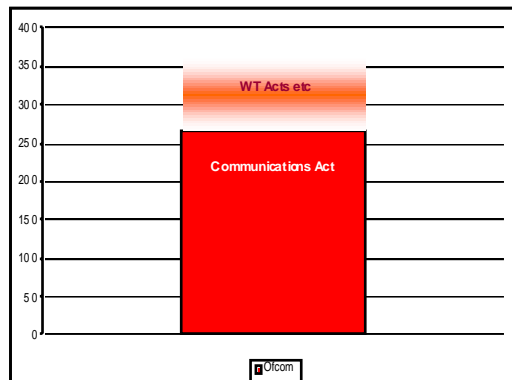
- Budget of £52.3m allocated to Ofcom through DTI to cover cost of set-up, transition and inherited liabilities
- Concurrent operation throughout, therefore cost of both new regulator and legacy regulators
- Work to build Ofcom involved 9 parallel projects with 130 critical milestones and 2,200 separate open tasks
- Work to build Ofcom was completed 8 December 2003, one week earlier than forecast and on budget
- £52.3m budget via DTI was granted to Ofcom on a loan basis
- Under Treasury guidelines, loan must be repaid with interest over 5-year term
- Additional costs incurred include VAT payment (not previously paid by OfTel and RA as DTI Agencies)
- Also cost of c. 130 additional statutory duties

More to do

Double the number of statutory duties



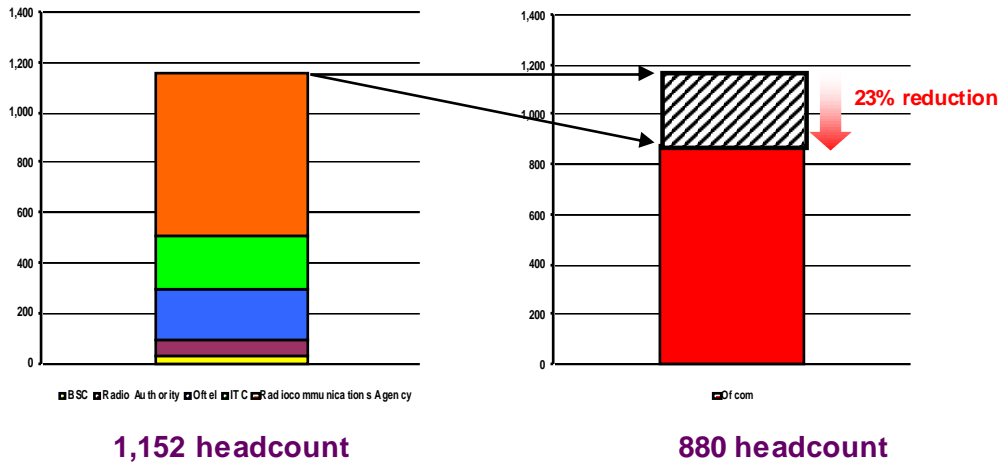
Total = 128 duties plus Wireless Telegraphy Acts etc.



Total = 263 duties plus Wireless Telegraphy Acts etc.

A leaner organisation

Headcount



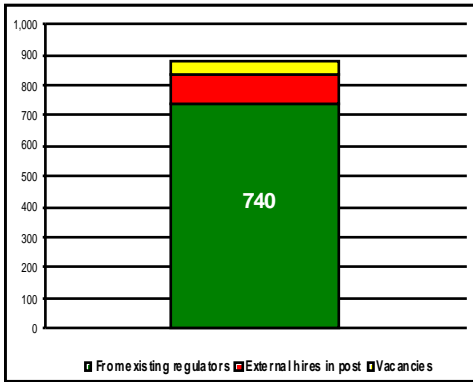
A leaner organisation

Efficiencies in operational areas

	Existing regulator operational headcount total	Ofcom operational headcount total	% difference
Human Resources	46	22	- 52%
Communications	45	14	- 68%
Operations	457	330	- 28%
Commercial	131	90	- 31%
General Admin	204	130	- 36%
<u>Total operational headcount efficiencies</u>	<u>883</u>	<u>586</u>	<u>- 34%</u>

Change in the skills mix

Existing experience + new talent

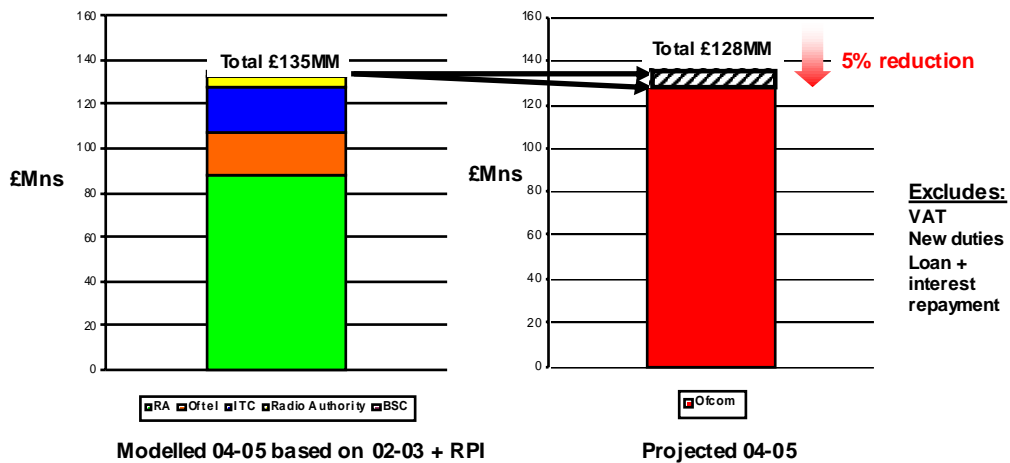


Need for additional expertise in:

- Competition law
- Economics
- Technology, R&D
- Research
- Strategy
- Project Management

A leaner organisation

Like-for-like core running costs 2004-2005

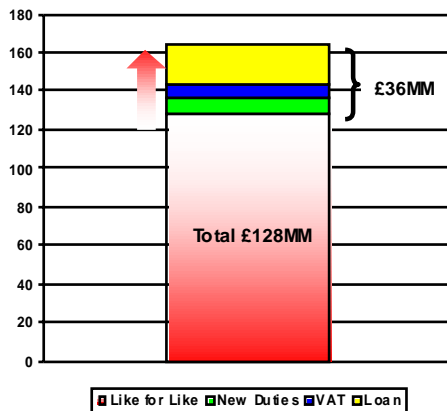


Pay and performance

- Approach is to be acceptably competitive in remuneration, but not full scope of remuneration on offer to senior executives in the commercial sector
- Average basic salaries:
 - Oftel £40,402
 - ITC £40,328
 - Radio Authority £40,758
 - **Ofcom £36,127**
 - BSC £32,689
 - RA £28,888
- Number of Ofcom colleagues earning £100k+ basic salary = 28
- Performance culture not entitlement culture
- Important change in culture internally
- Promotion on merit not length of service
- Increase in remuneration based on successful performance of duties, not simply the consistent avoidance of conspicuous failure

Total operating cost

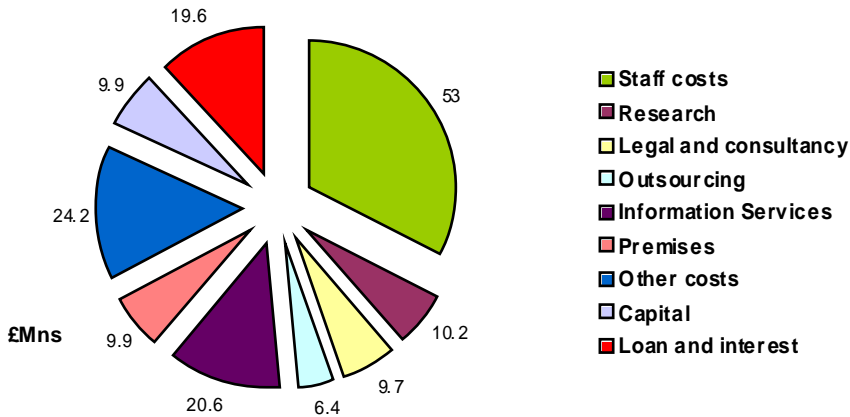
Additional costs to be paid in 04-05



Cost	£Mns
Loan repayment 04-05	20
VAT	8
New duties	8
TOTAL	36

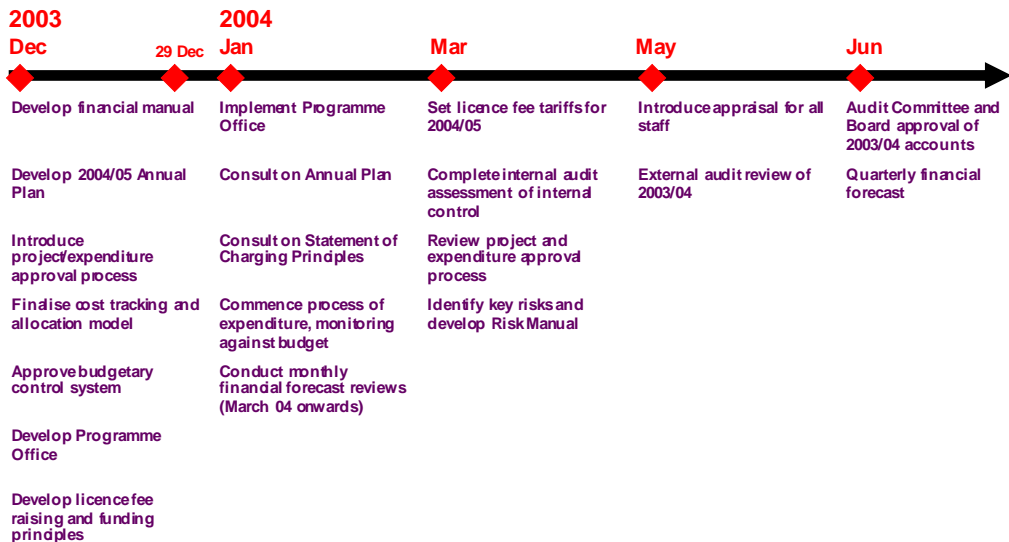
27% increase on current costs

Breakdown of 04-05 costs



All figures include VAT and are approximate and subject to confirmation

Financial controls



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Some projects started

- Carlton/Granada merger, remedies and Adjudicator
- Public Service TV Broadcasting Review
- Wireless Spectrum Trading Consultation
- Strategic Telecommunications Review
- Wholesale Broadband Access Market Review
- Broadcast Advertising Co-Regulation
- Technical transposition to the new Act (8 Consultations)

Our long-term success criteria

- **Flourishing sector**
- **Compelling UK broadcast content and formats**
- **Lower barriers to entry for innovators**
- **Diversity of market supply**
- **Regulatory certainty for investors**
- **Media literacy and access**
- **Above all – greater value and choice for the citizen-consumer**

Questions