Section 1

Introduction and Executive Summary

Around the world digital and broadband technologies are reshaping our Communications, Entertainment, Information and Knowledge industries, the wider economy, and the way of life for all of us. We are at a point of transformation. The success of our manufacturing and services industries will increasingly be defined by their ability to use and develop digital technologies. A successful Britain must be a **Digital Britain**.

Digital technology has led to a quiet revolution over the past decade in our lives at work, at home and at leisure. Many of us now take for granted a world of constant communication; of large-scale data transfer from home to work and vice versa, leading to new, more transport-efficient and family-friendly patterns of working; hundreds of television and radio channels; user-generated content; instant connectedness with virtual communities of interest and friendship; and keeping extended family networks in touch with images as well as words.

The Communications Sector is one of the three largest sectors in our economy alongside energy and financial services. The UK's digital economy accounts for around 8% of GDP. It has been one of the fastest growing successes of the past decade. We pioneered digital television and radio and have led the way in a national switchover programme. Our take up of first generation broadband has grown faster than that of almost all the other major economies. Britain has the highest proportion of internet advertising of any developed economy. By 2012 £1 in every £5 of all new commerce in this country will be online.

More importantly, the digital economy underpins our whole economy and builds our national competitiveness. Our readiness to adopt digital technology has driven productivity gains throughout our wider economy. Over the last ten years the UK has been consistently closing its historic productivity gap with the other leading European economies, based largely on our take-up and adoption of digital technology.

But our productivity still lags well behind the USA and we face new challenges from the innovative companies of the successful Asian economies. At their best, they combine fierce competition, providing innovation and consumer services, with a regulatory framework that balances the value of investment in the next generation of technologies against the benefits for the consumer of a competitive market place.

So Britain's competitive position as a user and producer of digital technology cannot be taken for granted. In the USA, the development of the digital economy, deployment of modern networks and universal broadband internet access are a central part of the new Administration's programme. The French Government has launched an ambitious reform strategy for their Communications Sector. The European Commission's global league table of digital adoption, skills and use shows that the UK, having been in the top seven earlier in the decade, has slipped to twelfth place.

Against this backdrop, this report assesses the UK's readiness fully to exploit the dramatic shift to digital technology as the basis of huge parts of our economy and private lives. This revolution is only a decade old - still in its infancy. Our demands and expectations of it will rise at an accelerating pace. Are we positioned to meet those demands and expectations?

The first, crucial conclusion of the analysis we have done shows that, as a country, we must ensure that our wired and wireless communications and broadcasting networks can meet the demands of a modern knowledge-based economy. Much work has already been undertaken, but over the next five years we will need to upgrade these networks in order to maintain our position and meet our ambitions.

This makes the need for an active and strategic approach from government indispensable if we are to close the gap. We need to plan now, identify the market failures that are standing in the way of a full roll out of digital infrastructure in the UK, and act swiftly in Government to help the market in the timely delivery of the high-capability infrastructure we will need. This industrial activism from government will be critical to ensuring that the UK gets the most out of the digital economy.

The growing global focus on digital technology

President Obama's technology-based American presidential campaign changed the face of US elections and the new President has made it clear that he sees both technology and a strong communications infrastructure as vital to economic recovery and growth. This includes a radical approach to the deployment of a modern communications infrastructure, including redefining universal service to extend its scope to broadband and unleashing the power of the wireless radio spectrum.

The President's digital ambition is being replicated across the globe. The French Government has recently launched its France Numerique 2012 plan, an ambitious communications sector strategy designed to strengthen France's digital position and enhance its broader competitiveness at a time of global economic slowdown and crisis. The message laid out in the plan is clear: the digital economy is the most dynamic sector in the world and as the global recession bites, it is essential to nurture those parts of the economy that can generate growth potential and jobs.

This is not simply a question of economic competitiveness, but also of fairness. We are at the point of technology development where we need a programme to ensure that everyone can connect to the digital economy, that its benefits and advantages are available to all. This means ensuring that all have access to the skills to participate effectively; and that the content and services available give everyone a good reason to take part.

The digital society offers us, as citizens, increased access to information, participation and influence, not least in the democratic process – the recent Presidential Election in the USA was the first to be decided as much online as offline. In addition to news and democratic participation, the digital world gives individuals scope for a broader and richer range of public service content than ever before, that truly informs and educates as well as entertains.

The necessary education, skills and media literacy programmes to allow everyone in society to benefit from the digital revolution will be a central part of the Digital Britain work and key to our success. We must ensure that being digital is within the grasp of everyone. If we do not, we risk leaving significant parts of our society disenfranchised and permanently behind the mainstream. In so doing, we would fail to secure the full potential of these technologies for our country.

It is important for the UK that we enjoy content over digital networks that relates to our culture and experiences as a society and informs us as citizens in a democracy. In practice, this means content generated in the UK for UK consumers, and plural sources of informed, accurate and impartial news, as well as of informed comment and analysis. The market will always provide some of this content, but we need to decide what else we require, and make policy decisions to achieve that. What do we, as a society, expect and require, and what institutions and policies will best deliver it?

Today, Britain has a range of institutions and interventions mostly designed for the analogue age. To date, only the BBC has the reach, the strategic and operational capability, and the funding to be a provider of such content at scale across the digital landscape. In this interim report, we examine the scope for other modern interventions that could provide for plural British digital content and the possibility of a new organisation of the scale and reach needed for the multi-media, multi-platform digital world, able to work alongside the BBC but with a distinct role.

At the same time, we need to ensure that Britain is well positioned to take advantage of the opportunities around innovation in new media content. Our track record in creativity and technical innovation in existing media provides an excellent base, but this needs to be married to development of business models that enable content creators to flourish on new platforms. We must also have the research and development programmes that will help us maintain our position.

For us as a society, digital technology also offers the prospect of more *effective* delivery of wider public services in terms of quality of service, connectivity and reach for the individual – as users of online services today, from NHS Direct to the DVLA's Car Tax Renewal Service, can attest.

Equally important, the digital society can offer more *efficient* public service delivery. This will be crucial in an era of very tight constraints on public spending in the years to come, with an additional £5m of efficiences announced in the 2008 Pre-Budget Report. Using the money in the service rather than its delivery is a major benefit for both the user and the taxpayer.

Delivering Digital Britain will require an ambitious and clear strategic vision from Government and a new and stronger sense of co-operation between Government, regulators and industry. We will play our part to ensure open and effective government, including ensuring, through bodies such as the Information Age Partnership, Government and industry have regular, open and constructive fora for discussion.

The Information Age Partnership

The Information Age Partnership (IAP) is a partnership for action between industry and Government, comprising Ministers and Chief Executives of the UK's leading IT, Electronics, Communications and Content companies.

The purpose of the IAP is to ensure that ICT is effectively deployed to accelerate innovation and productivity growth across the economy and to impact directly on the priorities of small and medium sized businesses. This helps the UK to take maximum global advantage of the technological, economic and political developments that characterise the information age and can drive the UK's economic recovery.

We believe that the Information Age Partnership will become an even more important and valuable forum for engagement between Government and industry, with a mission to ensure that the promise of Digital Britain is realised.

We need a comprehensive programme for Digital Britain: a programme that has five objectives for 2012 which drive the analysis and proposals in this Interim Report.

Digital Britain: Five objectives

- Upgrading and modernising our digital networks – wired, wireless and broadcast – so that Britain has an infrastructure that enables it to remain globally competitive in the digital world;
- A dynamic investment climate for UK digital content, applications and services, that makes the UK an attractive place for both domestic and inward investment in our digital economy;
- UK content for UK users: content of quality and scale that serves the interests, experiences and needs of all UK citizens; in particular impartial news, comment and analysis;
- Fairness and access for all: universal availability coupled with the skills and digital literacy to enable near-universal participation in the digital economy and digital society; and
- Developing the infrastructure, skills and take-up to enable the widespread online delivery of public services and business interface with Government.

Readers of this interim report will see that there are varying levels of detail and analysis in the different sections of the report. This is inevitable in an interim report and reflects the fact that there are some areas, where the problems are pressing, where existing knowledge of the issues, informed in particular by previous reviews and the work of Ofcom among others, have allowed us to move forward faster in our thinking and policy development. There are areas where this interim report reflects emerging findings; and those areas where we need to undertake much wider consultation and consideration, including across Government, before we bring forward detailed recommendations to provide a more comprehensive programme for Digital Britain. The process to date has been far from exhaustive. There are many aspects of this vital sector and its wider linkages to our economy and society that we only touch on – from smart grid technology to the links between the Knowledge Economy and a Low Carbon Economy, to the specifics of the next generation delivery of public services online.

Based on the five objectives above the main actions set out in this report are as follows:

Digital Networks

In relation to **Next Generation Access Networks,** we propose a number of specific actions:

ACTION 1

We will establish a Government-led strategy group to assess the necessary demand-side, supply-side and regulatory measures to underpin existing market-led investment plans, and to remove barriers to the timely rollout, beyond those declared plans, to maximise market-led coverage of Next Generation broadband. This Strategy Group will, by the time of the final Digital Britain Report, assess the case for how far market-led investment by Virgin Media, BT Group plc and new network enterprises will take the UK in terms of roll-out and likely take-up; and whether any contingency measures, as recommended by the Caio review, are necessary.

ACTION 2

Between now and the final Digital Britain Report, the Government will, while recognising existing investments in infrastructure, work with the main operators and others to remove barriers to the development of a wider wholesale market in access to ducts and other primary infrastructure.

ACTION 3

The Valuation Office Agency has provided new, clear guidance which addresses the problem of clarity over business rates identified by Francesco Caio in his report, and will ensure that they respond to any queries from existing and new investors and maintain clear, helpful guidance. For its part, the Government will ensure that the guidance is widely understood by potential investors.

ACTION 4

We will, by the time of the final Digital Britain Report, have considered the value for money case for whether public incentives have a part to play in enabling further next generation broadband deployment, beyond current market-led initiatives.

ACTION 5

The Government will help implement the Community Broadband Network's proposals for an umbrella body to bring together all the local and community networks and provide them with technical and advisory support.

In relation to existing and Next Generation **Mobile Wireless Networks**:

ACTION 6

We are specifying a Wireless Radio Spectrum Modernisation Programme consisting of five elements:

a. Resolving the future of existing 2G radio spectrum through a structured framework, allowing existing operators to re-align their existing holdings, re-use the spectrum and start the move to next generation mobile services. This must be achieved whilst maintaining a competitive market. If this can be done, the economic value of the spectrum would be enhanced. Existing administered incentive pricing (AIP) levels would be adjusted to reflect that enhancement. The Government believes that an industry-agreed set of radio spectrum trades could represent a better and quicker solution than an imposed realignment. There is an opportunity for industry to agree a way forward by the end of April 2009. In the absence of an industry-agreed trading solution by then, Government will support an imposed solution.

b. Making available more radio spectrum suitable for next generation mobile services. Ofcom has proposed the release of the so-called 3G expansion band at 2.6GHz. The Government will support proposals from Ofcom to play a key role in a pan-European alignment of the Digital Dividend Review Spectrum (the so-called Channel 61-69 band), being released by the progressive switchover from analogue to digital broadcasting, pioneered by the UK. This will free up radio spectrum particularly valuable for next generation mobile services.

c. Greater investment certainty for existing 3G operators: The Government wishes to encourage the maximum commercially-sensible investment in network capacity and coverage. But the further into a fixed term licence one goes the greater the disincentive to invest. We want to resolve this issue now as part of the structured framework. As part of the structured trading framework existing time-limited licences could be made indefinite and subject instead to AIP beyond the end of the current term. If this were achieved the Government would look to ensure that the AIP then set reflected the spectrum's full economic value and hence would capture over time the return equivalent to the proceeds that would have been realised in the market from an auction for a licence of the same period.

d. Greater network sharing: the Government and Ofcom will consider further network sharing, spectrum or carrier-sharing proposals from the operators, particularly where these can lead to greater coverage and are part of the mobile operator's contribution to a broadband universal service commitment.

e. Commitments by the mobile operators to push out the coverage of mobile broadband eventually to replicate 2G coverage and mark their significant contribution to the broadband universal service commitment.

In relation to Digital **Television Networks**:

ACTION 7

We will consider at what point and at what cost the standard offer provided by the Digital Television Switchover Help Scheme could have a return path capability, and we will ensure that such capability is available as an option.

ACTION 8

We will examine how the marketing and communications activity around Digital Switchover could be enhanced to use the region-by-region programme of publicly funded information and advice on one form of digital transition to provide impartial information on wider opportunities of digital beyond digital broadcast television.

In relation to Digital **Radio Networks**:

ACTION 9

We will take action to support DAB digital radio in seven areas:

a. We are making a clear statement of Government and policy commitment to enabling DAB to be a primary distribution network for radio;

b. We will create a plan for digital migration of radio, which the Government intends to put in place once the following criteria have been met:

   – When 50% of radio listening is digital;

   – When national DAB coverage is comparable to FM coverage, and local DAB reaches 90% of population and all major roads.

c. We will create a Digital Radio Delivery Group which includes the retailers, the Transmission Networks, the BBC, the Commercial Radio Companies, the Car Manufacturers, consumer representatives and the device manufacturers, whose role would be to increase the attractiveness, availability and affordability of DAB and to advise on the Digital Migration Plan.

d. We will work with the BBC to explore how they could extend their digital radio coverage to replicate at least current FM analogue coverage.

e. As recommended by the Digital Radio Working Group, we will conduct a cost-benefit analysis of digital migration.

f. We will consult on new legislation to allow a one-off five-year extension of existing community radio licences, to bring them in line with other radio licences and recognise the important role they have in delivering social gain. We also intend to re-consider the rationale for the current restriction of 50% of funding from any one source.

g. We will commission an independent expert examination of the economic viability, continuing social contribution of, and most effective delivery methods for, local radio services and the relevance of the existing localness legislation.

Digital Content

In relation to the **Economics of Digital Content**:

ACTION 10

In the final report we will examine measures needed to address the challenges for digital content in more detail, including opportunities for providing further support to foster UK creative ambition and alternative funding mechanisms to advertising revenues.

In relation to **Rights and Distribution**:

ACTION 11

By the time the final Digital Britain Report is published the Government will have explored with interested parties the potential for a Rights Agency to bring industry together to agree how to provide incentives for legal use of copyright material; work together to prevent unlawful use by consumers which infringes civil copyright law; and enable technical copyright-support solutions that work for both consumers and content creators. The Government also welcomes other suggestions on how these objectives should be achieved.

ACTION 12

Before the final Digital Britain Report is published we will explore with both distributors and rights-holders their willingness to fund, through a modest and proportionate contribution, such a new approach to civil enforcement of copyright (within the legal frameworks applying to electronic commerce, copyright, data protection and privacy) to facilitate and co-ordinate an industry response to this challenge. It will be important to ensure that this approach covers the need for innovative legitimate services to meet consumer demand, and education and information activity to educate consumers in fair and appropriate uses of copyrighted material as well as enforcement and prevention work.

ACTION 13

Our response to the consultation on peer-to-peer file sharing sets out our intention to legislate, requiring ISPs to notify alleged infringers of rights (subject to reasonable levels of proof from rights-holders) that their conduct is unlawful. We also intend to require ISPs to collect anonymised information on serious repeat infringers (derived from their notification activities), to be made available to rights-holders together with personal details on receipt of a court order. We intend to consult on this approach shortly, setting out our proposals in detail.

In relation to the provision of **Original UK Content**:

ACTION 14

To inform whether any change to the merger regime is yet desirable or necessary in relation to the local and regional media sector, the Government will invite the OFT, together with Ofcom and other interested parties, to undertake an exploratory review across the local and regional media sector and make appropriate recommendations.

ACTION 15

The existing Terms of Trade between the independent producers and broadcasters have worked well. In light of new entrants to the market, new business models and new distribution channels, it makes sense to have a forward look at how the relationship between independent producers and those who commission their ideas could evolve.

This review will focus on the appropriate rights holding agreements and definitions required for a multi-platform digital future, on the overall health of the sector and on continuing to ensure that viewers, listeners and users get the best and most innovative content and programming.

ACTION 16

In the final Digital Britain Report, we will establish whether a long-term and sustainable second public service organisation providing competition for quality to the BBC can be defined and designed, drawing in part on Channel 4's assets and a re-cast remit. It would be a body with public service at its heart, but one which is able to develop flexible and innovative partnerships with the wider private and public sector. While it makes sense to begin by looking at public sector bodies- Channel 4 and BBC Worldwide- the Government is currently evaluating a range of options and organisational solutions for achieving such an outcome.

Universal Connectivity

In relation to **Network Universal Connectivity** on Digital Networks:

ACTION 17

We will develop plans for a digital Universal Service Commitment to be effective by 2012, delivered by a mixture of fixed and mobile, wired and wireless means. Subject to further study of the costs and benefits, we will set out our plans for the level of service which we believe should be universal. We anticipate this consideration will include options up to 2Mb/s.

ACTION 18

We will develop detailed proposals for the design and operation of a new, more broadly-based scheme to fund the Universal Service Commitment for the fully digital age – including who should contribute and its governance and accountability structures.

In relation to the **take-up of universally available broadband**:

ACTION 19

We will encourage the development of public service champions of universal take-up. The Digital Inclusion Action Plan recommended the appointment of a Digital Inclusion Champion and expert taskforce to drive the Government's work on digital inclusion. Clearly, the work of the Champion will be important in encouraging take-up.

ACTION 20

We are inviting the BBC to play a leading role, just as it has in digital broadcast, through marketing, cross-promotion and provision of content to drive interest in taking up broadband. With other public service organisations, the BBC can drive the development of platforms with open standards available to all content providers and device manufacturers alike.

ACTION 21

A Public Service Delivery plan: we commit to ensure that public services online are designed for ease of use by the widest range of citizens, taking advantage of the widespread uptake of broadband to offer an improved customer experience and encourage the shift to online channels in delivery and service support.

Equipping everyone to benefit from Digital Britain

In relation to **Digital Media Literacy**:

ACTION 22

The current statutory and specific remit on Media Literacy is contained within s.11 of the Communications Act 2003. As this report makes clear, since 2003 there have been significant market changes in the availability of digital technologies and how they are used. We will ask Ofcom to make an assessment of its current responsibilities in relation to media literacy and, working with the BBC and others, to recommend a new definition and ambition for a National Media Literacy Plan.

This interim report sets out the background to these actions and the analysis on which they are based, as well as providing more detail on how we intend to fulfil them.

I am grateful to the Expert Advisers on the Steering Board and the many stakeholders who have given so generously of their time to produce these emerging findings and proposals and to the project team who have worked tirelessly since last Autumn.