



National Audit Office

Preparations for Digital Switchover

SUMMARY

1 In September 2005 the Government, after consultation with the broadcasting industry and Ofcom, announced a programme to replace analogue television broadcasts with digital television, region by region, between 2008 and 2012 (digital switchover). This report considers how this objective is being pursued by the Department for Culture, Media and Sport and the Department for Business, Enterprise and Regulatory Reform (the Departments), who have joint responsibility for delivering the policy objective.

2 Switchover is a major programme, involving the conversion of more than a thousand television transmitter sites in order to ensure public service broadcasting is available to some 25 million households in digital instead of analogue form. Unless households have at least one television set capable of receiving digital television signals they will lose access to broadcast television after switchover. The Departments estimate it will cost the UK economy £4.6 billion, mostly borne by consumers through the cost of acquiring and installing digital receiving equipment. The Departments estimate the cost will be outweighed by benefits to consumers and business totalling £6.3 billion.

3 Switchover differs from conventional government programmes in that the Departments are not directly funding or contracting for any of the principal activities on which the successful delivery of switchover depends. The Departments nevertheless retain accountability for the successful delivery of the policy goal and, despite not having formal contractual or financial control over delivery, have agreed a governance and implementation structure with the broadcasting industry and Ofcom, the communications' regulator.

4 The complexity of the non-contractual delivery and governance arrangements poses inherent risks to achieving the Departments' switchover objectives. This study explores the foundations of, and early progress in, the roll-out of switchover and considers whether the Departments have taken appropriate steps in overseeing the delivery of the policy objectives and managing the benefits and risks of switchover to consumers.

5 It is too early to say whether the Departments will secure their objectives for digital switchover, but they have so far made good progress: the programme has genuine momentum. Progress in getting the public to switch to digital television has exceeded the Departments' expectations, with main set conversion at 85 per cent, and a successful switchover in the flagship area of Copeland.

6 As the Government has arranged for the programme's communications and help scheme activities to be funded through ring-fenced amounts within the licence fee spent by the BBC, the delivery of those activities is not within its control. The BBC is accountable to the BBC Trust for that expenditure, as it is for other licence fee expenditure. The BBC Trust has started to set performance measures for establishing the value for money of the £800 million ring-fenced for switchover activities. Evidence from Copeland also indicates that take-up of the switchover help scheme may be significantly lower than anticipated by the Departments in their cost model. It is currently too early to say whether the licence fee has been set at a higher level than necessary to fund the Departments' help scheme. If the take-up in Copeland were replicated nationally, the sum ring-fenced for the help scheme within the licence fee would not all be required. The Departments have intentionally left open for future consideration how any under-spend would be dealt with.

Findings

7 Our main findings are as follows.

On the Departments' oversight of switchover

a The Departments are taking assurance from progress reporting by delivery partners that switchover preparations are on track to achieve Departmental objectives. While the the Departments' relations with delivery partners, including the reporting arrangements, are not generally defined by contractual or statutory agreements, they have established structured governance arrangements that, at this early stage in the implementation programme, have been characterised by open and effective co-operation and strong working relationships.

b The Departments have taken reasonable steps to promote the required transformation of the digital transmission network. Through the renewal of the BBC's Royal Charter and establishment of the regulatory framework managed by Ofcom, obligations have been placed on public service broadcasters and terrestrial television service providers to comply with the Departments' switchover timetable, while leaving it up to broadcasters how they meet this requirement. The Departments have also arranged for industry stakeholders to co-ordinate their switchover programmes through the creation of Digital UK.¹

On risks to delivery

c The infrastructure construction programme is largely on track, even though some of the contingency in the timetable was used up in 2007 due to bad weather. There remains a residual risk that external events, for example a repeat of the adverse weather of 2007, could delay the conversion of some transmitters. In the first large region to switch, Granada in late 2009, there is no contingency for further slippage in the timetable to convert the key transmitter for three million households. Action to recover the timetable at this site could delay the completion of work at other sites. If the Granada transmitter is not converted on time, contingency arrangements currently under discussion include using a reserve transmitter, and the Departments do not expect any significant impact on the current conversion timetable.

d Eighty five per cent of households have already converted their main television set to receive digital television signals, more than the Departments had expected to convert by now. The remaining 15 per cent of households will have to convert at least one set if they are to continue to receive public service broadcasts after switchover in their area. Consumers will still need to

convert or replace up to 26 million analogue televisions, including secondary sets, if those sets are to receive digital signals after switchover. The government estimated in 2005 that the total conversion costs for consumers will be approximately £3.8 billion.

e Two-thirds of the population say they understand what they need to do to get ready for digital television. However, understanding of switchover is much lower among some sections of the population including minority ethnic groups and non-English speaking groups. The 'digital tick' logo has been designed to help consumers identify goods and services that are designed to work through switchover, and is recognised by 75 per cent of the public. Mystery shopping research has shown an improvement in understanding of the digital tick logo among retail staff, but the most recent research, in November 2007, found that around half the retail staff were unable to explain satisfactorily what it meant.

On the public funding of switchover

f Current national awareness of switchover has reached 89 per cent, two years in to Digital UK's eight year communications campaign. This campaign is funded entirely by the BBC through £200 million in ring-fenced licence fee revenues. Digital UK and the BBC closely monitor the reach and effectiveness of the communications campaign, and the BBC Trust has started to set value for money measures for this area of expenditure. The BBC plan to assess the efficiency and effectiveness of different communications activities after the evaluation of switchover in Copeland.

g The Departments designed and, after consultation with industry and consumer groups, set the eligibility criteria for the Digital Switchover Help Scheme and have ring-fenced £603 million in the licence fee between 2007-08 and 2012-13 to fund it. The BBC is responsible for administering the scheme and in February 2008, through its subsidiary DSHS Ltd., identified eaga plc. as the preferred bidder for a contract to deliver the national help scheme. The BBC is accountable to the BBC Trust and not the Departments for the value for money of this expenditure, and is developing outcome targets for this scheme.

h Take-up of the help scheme in Copeland, the first area to switch, was significantly lower than projected in the Departments' cost model for both those accepting free assistance and those paying £40 for assistance under the scheme. If this level of take-up were replicated in other areas, the number of scheme applicants would be substantially lower than forecast.

1 Digital UK is a private not-for-profit limited company formed in April 2005 by the broadcasting industry at the request of Government.

i It is too early to draw firm conclusions on the funding requirement for the help scheme as the Copeland switchover had some distinctive features which mean it may not be representative. Our illustrative re-run of the Departments' cost model for the help scheme suggests that in a scenario where national take-up of scheme assistance mirrored that in Copeland, the funding requirement in the licence fee settlement to 2012-13 would reduce by some £250 million.

Recommendations

On putting the digital infrastructure in place

a **The Departments should ask Digital UK to agree a protocol with stakeholders which identifies how the impact of any delays to the conversion of the transmitter network would be handled.** The Departments recognise that there is little that they can do to mitigate the risk of poor weather delaying the conversion of the transmitter network. However, establishing clear plans for how the core delivery partners would manage the impact of delays upon the help scheme and public information campaign would support a co-ordinated response to any delay.

On managing risks and benefits to consumers

b **The Departments should formalise arrangements to receive detailed information on the decision-making and performance monitoring in respect of the switchover communications campaign as they have for the switchover help scheme.** The Departments have sought to gain visibility of decision-making and monitoring activity in respect of the operation of the licence-fee funded switchover help scheme through a project board, but have no formal arrangements to receive detailed information on the licence-fee funded communications activities.

c **The Departments should invite the BBC Executive to be represented on the Switchover Programme Group.** Although the Departments asked the BBC to take a lead role in digital switchover, the BBC Executive is not represented on the Switchover Programme Group, which is the main forum through which the Departments obtain assurance about the programme and seek to influence delivery. The subsidiary company set up by the BBC to deliver the help scheme and Digital UK, in which the BBC has the majority stake, are represented on the Switchover Programme Group, but the BBC itself has no direct representation.

d **The Departments should establish with Digital UK how they can secure a better understanding of the make-up of the 3.7 million households who do not yet have digital television.** The Switchover Progress Report, on which the Departments rely to monitor awareness, understanding and conversion to digital, highlights groups with below average digital take-up, but does not profile the 15 per cent of households who currently do not have digital television. The Departments consequently do not know why people within this group have not converted, and therefore should identify what information they require about these households and whether they could obtain it in a cost effective way.

e **The Departments should seek sufficient assurance that retailers licensed to use the digital tick logo have sufficient guidance and training to inform consumer choice.** The digital tick logo, which is owned by the Department for Business, Enterprise and Regulatory Reform, was launched in 2004 to help consumers make informed decisions about digital switchover, including when purchasing equipment. Around three quarters of consumers are aware of it and it is widely used by retailers, but only around half the retail staff in stores which display it are able to explain to consumers what it means.

On achieving and demonstrating value for money

f **The Departments should establish whether the level of the help scheme charge is having the desired impact.** The help scheme is designed to address the physical rather than financial needs of eligible people and offer equipment which meets these needs. Take-up of help scheme assistance in Copeland by people who had to pay the £40 charge was significantly lower than projected in the help scheme cost model. The BBC has identified a number of possible contributory factors, including the deterrent effect of the charge set by the Departments and weaknesses in communicating the benefits offered by the scheme.

g **The Departments should re-assess whether all the sums due to be raised though the licence fee for the help scheme are still required once more evidence on future take-up from further switchovers becomes available.** Our illustrative financial modelling, using the latest available evidence of scheme take-up in practice, indicates that if the lower than forecast take-up in Copeland were replicated in other areas, significantly fewer people than forecast may use the help scheme.