

HOUSE OF LORDS
MINUTES OF EVIDENCE
TAKEN BEFORE
THE SELECT COMMITTEE ON COMMUNICATIONS

DIGITAL SWITCHOVER OF TELEVISION AND RADIO IN THE UK

WEDNESDAY 20 JANUARY 2010

MR DAVID SCOTT and MR PETER WHITE

MR FORD ENNALS and MR BARRY COX

Evidence heard in Public

Questions 1 - 147

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WEDNESDAY 20 JANUARY 2010

Present

Bonham-Carter of Yarnbury, B
Eccles of Moulton, B
Fowler, L (Chairman)
Gordon of Strathblane, L
Howe of Idlicote, B
Inglewood, L
King of Bridgwater, L
Macdonald of Tradeston, L
Manchester, Bp
Maxton, L
St John of Bletso, L

Witnesses: **Mr David Scott**, Chief Executive, Digital UK and **Mr Peter White**, Chief Executive, BBC Digital Switchover Help Scheme, examined.

Q1 Chairman: Welcome. Thank you very much for coming at quite short notice. We are doing and looking at the digital switchover process, both in television and radio. It is not going to be a long inquiry perforce of circumstance because we all have the slight suspicion that an election might come – we have the certainty that an election will come at some stage and the only question is quite when in the next few months. So we are taking the essentials as far as this is concerned. This is our first meeting and I will therefore start with some basic questions, if I may, starting with finance. How much do you now estimate that the process of digital switchover as far as television is concerned is going to cost?

Mr Scott: Can I take that in two parts? I am accompanied here by Peter White, who is Chief Executive of the Help Scheme, and so he will address questions on that, which is a separate organisation. Digital UK itself has a budget made up of two parts. The first part is a communications budget which is funded from the licence fee. That budget was set at £201 million and we are presently expecting to come in at £145 million, so we will have a saving of

£55 million or so. Secondly, we have an operating cost budget which is set at just over £30 million, which is met by all our shareholders. The numbers I have given you are for the total project, from the beginning in 2005 through to the end of the switchover programme. In addition to that Peter has a budget.

Mr White: If I could take a bit of time to explain because ours is dependent on take-up and we are only about 20 per cent through. The original budget for the Help Scheme was £603 million. That assumed an original take-up of 65 per cent. After the competitive procurement process – that at the time the OGC said was a model of its kind – we saved just over £100 million; so at that point with 65 per cent take-up we would have been expected to spend £495 million. But that was still assuming a take-up of 65 per cent. Currently take-up is around 18 per cent and that does vary region by region, but on average it is 18 per cent. At this particular stage though there are a number of factors that may change that as we go forward – changes to the scheme agreement; so we have had a change including care homes, which brings additional cost. We have also just finished research that shows there are some people who are still struggling with switchover that we would like to help, and we think it would be a good thing to help. We think that that is probably an additional five to ten per cent of the eligible people that probably could benefit from our help. Also we are just about to introduce a new Freeview box. You will hear that one of the issues with switchover is the retuning issue. That box really copes well with retuning and therefore we think that that may drive up demand. So actually with 18 per cent in these factors we do think that when the NAO looked at this in February 2008 they predicted an underspend of £250 million – half of that was the procurement saving and half was take-up – and we believe that at this stage it is probably wrong to assume more than an additional £50 million on top of that; therefore £300 million underspend is where we think it may turn out.

Q2 Chairman: That is over a period.

Mr White: That is over the life of the scheme.

Q3 Chairman: Tell me this: you were estimating 65 per cent take-up and you are saying that so far the take-up is 18 per cent.

Mr White: Yes.

Q4 Chairman: That is an extraordinarily wide variation; why did we get it so wrong?

Mr White: I was not around when the modelling was done, the 65 per cent – that was the Government model. I think it was based on estimates.

Q5 Chairman: Who did that model?

Mr White: The DCMS was doing that modelling at the time, and I think it was based on television conversion at the time, which did get substantially better from the time the model was done until now. Also, I think it was not known what take-up would be. These demand-led programmes are very difficult to predict. It is true that there are many of the eligible people who, we think, think that the offer is good value but they are choosing to help themselves and doing it very well; so it is their choice. So until you do these things it is very difficult to know what the demand will be.

Q6 Chairman: Actually you could have done without a Help Scheme at all, could you not?

Mr White: What is very clear is that for the people we are helping they are absolutely in need of that help, so I would say that there would be a good number of people who would be left with blank screens struggling to watch television if there was not a Help Scheme.

Q7 Chairman: Did whoever was organising this take any advice from the Department of Social Security on take-up? Because they are the experts.

Mr White: I do not know that but I can find out and write to you with that.

Q8 Chairman: It would seem a sensible thing to have done. So we are then left, are we, with an underspend over the period, is that right, of £355 million, taking these two together?

Mr Scott: £55 million from Digital UK, yes.

Q9 Chairman: £55 million from you, which is a vast underspend, is it not?

Mr Scott: Yes. We continue to seek savings as we go.

Q10 Chairman: You are taking credit for it?

Mr Scott: Last year we reduced our communications activity by about £10 million and so we continue. Part of that is the economy obviously; but we are trying to tighten our communications and make them more efficient the whole time.

Q11 Chairman: Just to put it into perspective, this was £355 million over the switchover period, that is correct; but it is also money that has come from the BBC licence payers in both cases. So it is not entirely impact free because if that money had been available it could have been used for other purposes like training inside the BBC, about which we are concerned in this Committee.

Mr Scott: These budget sums for switchover were added to the licence settlement and were ring-fenced.

Q12 Chairman: I have heard that argument before – and it was not an argument that was used initially, incidentally. You are looking at it from the point of view of the provider and we are looking at it from the point of view of the consumer, from the point of view of the public; it is the public who are paying the licence fee. And actually they have overpaid, have they not, because where is the money going to go?

Mr White: There are two things. Can I answer the previous question? The money is collected throughout the life of the scheme so what we have made sure we have done has

always been forecasting the best estimates and giving that to Government, so there is still time not to collect all of that money from the licence fee if there is an adjustment made before it is collected. So at the moment we have underspent against the model by £50 million by the end of the last financial year and there will be about 50 plus again this year. So it is not as bad as all that.

Q13 Chairman: But I still do not know quite where this money goes at the end of it. Slight experience of governments over the years, my guess would be that it will not go to broadcasting; it will go back to the Treasury.

Mr White: I do not have a view on that.

Chairman: You do not have a view. You do not need a view; do you have any information on it?

Q14 Lord Gordon of Strathblane: Or arguably back to the licence fee payer if somebody wanted to reduce the licence fee by the excess.

Mr White: The scheme agreement, which is the rule book under which I operate, is very clear that if there is an underspend it goes back to Government to consider how they spend it; so as the Chief Executive of the scheme I do not have a view.

Chairman: So at the moment, at any rate, there is underspend which could go back to whomever? But we have a strong suspicion that would be the Treasury – at least I have a strong suspicion it would be the Treasury.

Q15 Baroness Bonham-Carter of Yarnbury: My Lord Chairman, is not the idea that it goes to the Independent News Consortia?

Mr White: Again, that is for Government to decide.

Baroness Bonham-Carter of Yarnbury: That is what is suggested.

Q16 Lord Maxton: There is some commitment to the Broadband commitment as well – some of it might go there.

Mr White: The Government is talking about that.

Chairman: I wanted to get that clear, but let us turn to the actual progress of the scheme itself.

Q17 Lord Inglewood: As I think David Scott will know, I live in the Border transmission area where of course we have gone through digital switchover. The impression I have is that in general it went smoothly and people are able to operate the new technologies without any untoward difficulty. In my household – our children might disagree – we think we have it cracked, and that is the impression I have in the community in which I live. How do you see it having gone in terms of the impact in the communities where digital switchover has actually occurred? Do you think that you have succeeded?

Mr Scott: I am glad that you have managed to switch satisfactorily. Yes, our experience is that it does go pretty smoothly. We expect normally that about 99 per cent of homes will have digital equipment installed in their homes ready for switchover at our first switchover date; and at the second stage or immediately afterwards we would expect that to be 100 per cent. We normally find that about one per cent of homes in the area will telephone us on switchover day asking for advice and information. The matter which they on the whole find difficult is how to retune their Freeview equipment, which they may have had installed for some years but not have retuned and so it is a new experience for them. We find that of those people we can help the vast majority in the space of about a five-minute telephone conversation and they go away having retuned the box while we are on the phone. From our research in areas after switchover – we go back and do some research a few weeks later – so far in four switchover regions which have completed we have found in every case a 100 per

cent take-up, apart from one household in the West Country and we found that they had not converted. Our expectation is that everybody will convert.

Q18 Lord Inglewood: Is the picture that is emerging a consistent one across the country as a whole?

Mr Scott: Yes, so far it has been. When I say that we expect about one per cent of calls on switchover day that number has varied from just under half a per cent to, I think, 1.3 percent – so it is in that band. But it averages at about one per cent of people asking for specific advice on the day of switchover.

Q19 Lord Inglewood: Is what has happened what you anticipated when you were planning it?

Mr Scott: Yes.

Q20 Baroness Howe of Idlicote: You say that 90 per cent and really 100 per cent the day after, as it were, have been completed, but given the whole area, the whole of the country, are you anticipating that it will be completed by the target date, as well as being within budget? You have clearly given the answer to the second part of that.

Mr Scott: Yes, I am absolutely confident that we will complete on the target date. It is a very complex engineering project where it all has to be knitted together and once dates are set they are very, very hard to move. In delivering that engineering project which Arqiva, the transmissions mast operator are doing, they are of course weather dependent particularly. We have had three wet summers in a row which, I am glad to say, they have managed to cope with, and not got behind. In the last few weeks we have obviously had a lot of snow which has made access to some of their sites very difficult but, again, there is no indication at the moment that that is going to cause them any time delay.

Q21 Baroness Howe of Idlicote: And we are talking about both rural and urban areas?

Mr Scott: Yes.

Q22 Baroness Howe of Idlicote: And to add to that group all those really bad reception areas – one of which I live in. So you are quite confident about all of that?

Mr Scott: Absolutely.

Q23 Baroness Howe of Idlicote: In fact given the whole scene are there any other problems that you anticipate?

Mr Scott: I suppose there have been two changes to the activity which we undertake in the last period. First of all, Ofcom and Government and the broadcasters decided to rearrange the Freeview platform to introduce the high definition services, so our plan had originally been that the Freeview free-to-air services would be carried on at six of the multiplexes. Now they are going to carry on five and the sixth one has been cleared for high definition services, just launching. So that was an adjustment to our plan and that resulted in the need for Freeview to organise a national retune on 30 September of last year, when every Freeview home in the country on one day had to retune their boxes in order to continue to receive all our services. We supported Freeview through that and I am glad to say also that the research which we did afterwards showed that about half the country, about eight or nine million homes retuned on 30 September and a few weeks later we found that 97 per cent had and 1.4 per cent were planning to do so very shortly.

Q24 Baroness Howe of Idlicote: Do you think it is complete by now?

Mr Scott: Yes.

Q25 Lord Gordon of Strathblane: While the experience in Granada must give you a fair degree of confidence, surely London is a different order of magnitude to any other part of the country in terms of straight numbers?

Mr Scott: Yes, in terms of numbers obviously you are right. I think that as we go through the process we are working with the grain of the market place so already 91 per cent of homes in the UK have digital television services. I expect that by the time we get to London in 2012 that number will be higher. So, yes, the numbers are large. In Granada we were faced with three million homes switching at the end of last year and that went through very smoothly.

Q26 Lord Gordon of Strathblane: There is no danger that coverage of the Olympics will be in any way hampered in 2012 – one hopes?

Mr Scott: I absolutely hope that that is right. I believe that is right. I was referring to changes that have been made along the route. There is another change which Government and Ofcom are considering and I think have decided to implement, which is that as part of the television switchover programme we released something called the Digital Dividend, which is 14 frequency channels. The original plan which was agreed in 2003 or 2005 specified which frequencies would be released and there has been a slight adjustment to that; so frequencies 61 and 62, which are used for television at the moment and were planned to continue to be used for television broadcasting after switchover, will now be released either at the time of switchover or shortly afterwards. We are working with Ofcom and the broadcasters to plan that activity, which will affect something like 800 of the 1,100 masts which will require some adjustment to our plan.

Q27 Lord Maxton: You operate very largely through Freeview in all this but we have had Freesat since the introduction of the scheme, so to speak. Does that affect it in any way?

Mr Scott: Obviously when I give numbers of households with digital equipment I am including Sky services, Freesat services, cable services and Freeview. But the switchover programme affects the terrestrial transmission masts and so it does not affect the satellite or cable services.

Q28 Bishop of Manchester: I am one of the seven million viewers within the Granada region. I think we were really pleased that we were given such top priority in the North West as one of the very first regions to have the switchover, although listening to Lord Gordon I am really becoming a bit cynical now that we were probably merely being tested out for the teething problems which London might then have. You have been quite reassuring on the teething problem issue. Certainly in Manchester I have not come across any problems. We do have a home in South Lakeland and I have to say that I have had to retune on several occasions, although that may simply be my inadequacy. I did pick up in a local Lancashire newspaper that there had been some genuine problems I think in the Lancaster area in relation to picking up BBC signals; is that right?

Mr Scott: Yes. These were absolutely anticipated and expected issues. What you are referring to, I think, is that something like four per cent of homes in the Granada television region were also going to be able to pick up services from Wales. So after switchover, when we got to high power services from Wales and from Granada, when people retuned their boxes about four per cent of homes were going to be able to receive Welsh services as well as the Granada services. The Welsh services which they are receiving are transmitted on lower frequencies than the Winter Hill signals, so many of the boxes when they are retuned will capture – they start retuning from the lower frequencies and go on up – the first signal they get, receiving a Welsh signal and then lodge that. The Granada signals were then grabbed and put higher up in the EPG so they are in the 800 numbers rather than at 1, 2, 3 or 4. This, as I say, was planned and expected. It is solvable. It is fiddly where it requires people either to do

a manual retune of their box which requires them to put in the specific frequency numbers they want; so that obviously makes it difficult for them to get the information – it is not entirely intuitive. Or they can root around with their “favourites” functionality, if that exists on the boxes. It was an issue, you are quite right; it was referred to in the Lancashire paper. It was anticipated and I think is now being dealt with. It is going to happen again when we get down to the West region in the next few months; again, about four per cent of homes in the West region around Bristol will be able to pick up the Welsh signal as well as the West signal.

Q29 Bishop of Manchester: Can I continue to press you on this about your phrase “and is being dealt with”? Does that mean that there are still quite a lot of homes in, say, the Lancaster area that are unable pick up the local Granada news? I suspect that that is actually what you are saying, and that it may be a little while before what you are aiming for is actually achieved.

Mr Scott: I do not know the answer to that question. The concern that was in the media following the switchover on 2 December, I think the last article I have seen was 20 December, and I have not seen any issues or complaints that have been raised since then. Certainly we had a lot of calls to our advice line in the normal way, asking how to deal with this and that call volume has dropped away completely. So I am not aware of large numbers of people who are still struggling with this.

Bishop of Manchester: And the fact that I have had to retune several times, is that my incompetence? Do not answer that!

Q30 Lord Maxton: Can I ask what is almost the reverse question of the Wales one here. In parts of the west of Scotland at present with analogue terrestrial you pick up Ulster. Will the switchover do away with that particular problem?

Mr Scott: No, probably not. The digital terrestrial network has been built using the same masts as the analogue network, so I would think that somebody as you describe, in the west of Scotland, who might be receiving an Ulster signal is probably doing that because they might not have a line of sight to a transmitter for STV, and if that is the case they will continue to receive a signal after switchover from the same mast which they have now, which is presumably the Divis mast near Belfast.

Q31 Lord Maxton: For people in the west of Scotland “Car crashes in Belfast” is not of great interest!

Mr Scott: Of course satellite services would give them the region that they require.

Lord Maxton: Yes, it gives you BBC Wales even.

Q32 Lord St John of Bletso: If I could touch on the Help Scheme, you mentioned about an 18 per cent take-up and of course those eligible are aged 75 and over and those who live in care homes and the eligible disabled. What groups have been the major take-up for this scheme and what contribution have those had to make? There has been mention of a £40 contribution; so how many have paid the contribution and how many have had that service for free?

Mr White: If I start with who is taking it up. There are slightly more people 75 and over than the eligible disabled who are eligible for this scheme, and we are finding that the older people have a higher propensity to take it up – but only slightly. So that shifts by about five to ten per cent. So whilst we are saying a tendency for older people to take up the scheme it is not a significant shift from that. On the free and £40, about 40 per cent of eligible people are entitled to free help, so 60 per cent are asked to pay £40. You are three times more likely to take up the scheme if you get it free. So clearly that is the effect.

Q33 Lord St John of Bletso: How is the scheme communicated to those who are eligible? And is the scheme correctly targeted to those three categories? I suppose the final question is: when will this scheme come to an end?

Mr White: We get the data on the eligible people from the Department of Work and Pensions and from the local authorities for the blind and partially sighted data, and we then write to those individuals up to three times – the Information Commissioner is allowed to write – before we hear back from them. We also do lots of media campaigns and outreach activities with charities and local authorities. But we actually write to those people who are eligible. The scheme runs across the country mirroring the ITV region switches, so eligibility opens before the ITV region switches and closes one month after the final transmission in a region. So it closes down as it goes along; so in those regions the order that has closed already now has ended the after-care period as well, so we close it down as we go through.

Q34 Chairman: I am still not totally sure: what form does this help take? What is the help?

Mr White: We will provide equipment. The standard offer in most of the regions so far has been a DTT box, a Freeview box. We will come into the home and install it; we will check the aerial works, and if the aerial needs upgrading and we are able to – sometimes we are not able to if there are planning restrictions or rented accommodation – then we will place the aerial.

Q35 Chairman: When you say “we”?

Mr White: We the Help Scheme; so the Help Scheme and our main contractor who is Eaga plc, whom we appointed in the procurement process. We then also provide an aftercare process, so there is a free phone number that people can call if they have problems retuning their box afterwards.

Q36 Chairman: So there is a separate plc going round the country?

Mr White: No, it is us running it throughout the scheme region by region and Eaga plc, which is our contractor delivering the scheme, are with us all the way through the scheme.

Q37 Chairman: In every region?

Mr White: In every region, yes.

Q38 Lord Maxton: Is the Help Scheme limited to the Freeview service? In other words, can you make a contribution towards Freesat or SatFree, to Satellite Sky?

Mr White: In every region we open it up to all platform providers to be able to offer options; and so to date we have been offering Freesat services and a Sky service. We have not had any bids from cable operators to do that. So, yes, you can choose a Freesat or a satellite service from Sky.

Q39 Lord Maxton: Because obviously with a care home it might very well be the cheaper alternative to put in one satellite dish and provide that service to all the rooms within that home.

Mr White: There is a process which assesses what can be done.

Q40 Chairman: Let me go back to this cost again. There is this fee of £40 but how much on average would it cost you to provide the help on a per person basis?

Mr White: Because of a reasonably large fixed cost obviously to run the scheme the cost per person helped varies depending on take-up, but on current take-up it could be around £200 per person actually helped. There is also a benefit to those people we do not help because sending out details of the switchover to all eligible people, we talk to a lot of them on the phone talking through what their needs are and then some decide that they are already sorted and do not need help. That is still quite good value because our boxes are better than the

cheapest box you can buy. We have heard about the different regions' service issues. The new box we are putting in sorts those very easily; it retunes automatically using a trigger in the broadcast signal. An installer, who is CRB checked, turns up to the home – and that costs money if the individual was doing that. The aftercare service – we will also turn up at the home again afterwards to talk people through the equipment if they are really struggling to use it. Aerial installations can cost hundreds of pounds. So for the £40 fee to make sure that you get everything you need to switch, for a lot of people is a very good and secure value package.

Q41 Chairman: As you say, they are getting very substantial support in that.

Mr White: Yes, and a significant number of people we are helping need that support.

Q42 Chairman: I do not know if this pre-dated you but did it ever occur to you that this might actually all be organised through the Social Security Department? Why do we need a separate help department for all this? Could it not be done through the Social Security Department and they actually provide resources to agents throughout the country?

Mr White: It is probably better asked to the DCMS who set up the scheme, I think, rather than us.

Q43 Chairman: Let me ask it the other way. You must have some advantages, so tell me what they are.

Mr White: I think one of the reasons why the DCMS did it is that there are not many government departments that run engineers who visit people's homes, so it is a very physical service. We are buying television equipment; we are technically ensuring that that equipment is right; we are actually training and managing installers who go and visit homes. So 60 per

cent of people who opt in get an installation within 15 days. It is a very slick operation and you need people with experience in this to manage it.

Q44 Baroness Bonham-Carter of Yarnbury: Can I confirm something in answer to the first question. You mentioned £300 million that you thought would be left over. Is that from the Help Scheme?

Mr White: Yes.

Q45 Baroness Bonham-Carter of Yarnbury: Just from the Help Scheme?

Mr White: Yes.

Q46 Baroness Bonham-Carter of Yarnbury: Just one question to Mr Scott. There was some concern before this all began about multi-occupancies, landlords and so on. Have you had problems there or have you managed to resolve people being left out?

Mr Scott: You are quite right. One of our high risks that we identified at the outset was what would happen in flats where landlords, either social landlords or private landlords, might not have done what they need to do in terms of updating aerials or reception. That is a risk which we have been downgrading as we go and I have to say we have been working quite hard on it. In the social sector we do work in a region for about 18 months before switchover. We try to identify all the social housing providers. We list them out individually, we work out how many units, what accommodation they have; we prioritise the highest volume providers first. But by the time we get to switchover we will have been in touch with all of them and have a confirmation that all of their buildings are ready for switchover. So far we have a 100 per cent record on that. The private landlords are much harder to identify because there is no central listing of where they are, but we again work hard trying to communicate to people who are obviously tenants – where we can see from the address that it is flat number so and

so, or 16B or whatever – to tell them what they need to talk to their landlord about and we communicate to landlords where we can find them. We make use of the tenants’ deposit scheme and we communicate through landlords associations and elsewhere. But so far – and I think that Granada was probably going to be the first big test in this – this has not proven to be an issue at switchover.

Q47 Lord King of Bridgwater: You said that the boxes you provide are rather better than some of the cheaper ones that are available. Who provides them? Who produces them?

Mr White: We buy them from a number of sources. In fact we are just going through a procurement process that may look at changing that supplier; so it is a number of different suppliers that is changing over time.

Q48 Lord King of Bridgwater: But you roll it out to tender, do you?

Mr White: Eaga are currently going through a tender, yes. We set the specification for the box and then go to manufacturers and ask them to deliver to that specification.

Q49 Lord King of Bridgwater: What sort of numbers are you talking about?

Mr White: We have currently helped just over a quarter of a million people and the majority of those are with a Freeview box.

Q50 Lord King of Bridgwater: So you bought a quarter of a million boxes?

Mr White: Yes.

Q51 Lord King of Bridgwater: Which you paid for out of public funds, which were supplied to people free of charge?

Mr White: Or £40 if they had to pay £40.

Q52 Lord King of Bridgwater: How long does your obligation to stay with them last?

Mr White: We have said 12 months. We have found that most people get used to using the equipment pretty soon after switchover, but some people do struggle. There will always be some people, particularly in this group, who do hang on to the service and we will then work with local charities and the people they have contact with to hand them back.

Q53 Lord King of Bridgwater: Why are you going out again? Have you had problems with some of the manufacturers?

Mr White: There are some boxes with faults but it is a very small number and well within industry norms. Mainly we go out because people are struggling to use the equipment; so it is an understanding thing. It is not the equipment itself, it is the user.

Q54 Lord King of Bridgwater: I am sorry, I am asking about your placing of an order. I understood that you place an order with various manufacturers.

Mr White: Because value for money is still at the heart of what we do and box cost is a significant part of the cost of the scheme and therefore we are ensuring that we are always getting the best price for the box. It is absolutely nothing to do with the quality of the boxes; this is about making sure that we continue to get good quality boxes at the best price for the licence fee payer, who is ultimately paying.

Q55 Lord Maxton: Freeview boxes now can be bought with a DVR capacity. Do your boxes have that?

Mr White: We offer that as an upgrade option so obviously that would cost more money. But we offer that and the choice of integrated TVs if people choose that too, which we would then deliver and install and support. Not many people have taken those up but we do offer them.

Q56 Lord St John of Bletso: The Help Scheme offers assistance for just one television in the house. What would the cost be if households had more than one television set?

Mr White: The scheme only allows us to help with one television; so we actually do not help with any of the other televisions in the house. So that is up to the householder to sort the other televisions out.

Q57 Baroness Eccles of Moulton: Could we turn, please, to the DCMS/DTI cost/benefit analysis that took place in 2005? It indicated that there was going to be both economic benefit through savings by not continuing with dual transmission, and also consumer benefit in that it was going to release spectrum for other uses. Is it time for that analysis to be reviewed or is it still pretty well accurate as things are progressing?

Mr Scott: I will happily answer that question but I will start off by saying, as you said in your question, it is an analysis that was done by BERR or BIS and the DCMS and it is their cost/benefit analysis and not mine. That said, it was originally done in 2003 by the departments with some independent economists and I think that they considered that there was a net benefit of about £2 billion. It was updated in 2005 and the assessment then was that it was broadly in the same order, about £1.7 billion. Since then that Ofcom has done some further work and thinks that the frequencies which are going to be released will be worth a bit more, so maybe the net benefit is larger now than originally planned. What I would say – it is a matter obviously for the departments – we are half way through the programme and I cannot see a great benefit in updating that analysis now. Personally, I would probably wait until the end of the project when Ofcom will have perhaps done some more work on the allocation of frequencies, which is the big number. It does not obviously impact on the work that I am doing. This cost/benefit analysis was done by the departments to inform Government policy. My job is to deliver that policy and to be efficient in doing so. That is what we do.

Q58 Baroness Eccles of Moulton: As things are at present, although it is not directly within your remit, you do not see any great need for anybody either Ofcom or DCMS?

Mr Scott: Personally not, but you probably should ask that question of the departments.

Baroness Eccles of Moulton: We will do that. Thank you.

Q59 Lord Macdonald of Tradeston: Can I ask you to offer your overview on this just to help us understand the area better. I am aware of what you have just said about it being more a government area than your own, but just in looking at the benefits, could you guide us in terms of the communication industries, who might be the beneficiaries and who might be the losers in the cost/benefit analysis?

Mr Scott: I am sorry, I am not going to be able to help you hugely on that in that I have never actually gone deeply into the analysis which the Government undertook. But the frequencies which are going to be freed up are probably going to be auctioned by Ofcom. They could be used for further television services; they could be used for broadband; they could be used for mobile services, and I think that the market and the auction process and however that is structured will decide who is going to get the frequencies. So I am not being terribly helpful, I am afraid.

Q60 Lord Macdonald of Tradeston: Another aspect of it is perhaps the environmental impact. We have seen figures that suggest that perhaps the energy required for the kind of digital television that you are encouraging might be a cost of over £1 billion a year to the consumers. I am not quite sure how many households there are but that is maybe working out about £40 per household per year. Do you have a view on that? Has it been an issue that you have had to address?

Mr Scott: Again, this is work that the government departments have looked at. There are of course two parts to this. At the moment we are running a dual transmission system, both the

analogue terrestrial system and the digital terrestrial system, and at the point of switchover the analogue system gets switched off. So there are energy savings there, I believe. From the consumers' point of view, the boxes and equipment in their homes, I think there is greater energy consumption than a normal television set. However I think that work is being done – and I know that Sky, for instance, has introduced some more efficient set-top boxes, so work is happening in that area. Part of the problem is that of course these boxes should ideally be left in a standby mode, switched on overnight because they do receive downloads over the air during the night.

Q61 Lord Macdonald of Tradeston: Are there any safety factors involved in leaving the boxes on all night?

Mr Scott: Not that I am aware of.

Q62 Lord Macdonald of Tradeston: Are there any technological changes in progress that would reduce the amount of energy that will be used by the digital screens?

Mr Scott: You are getting into an area which is beyond my competence, I am afraid.

Q63 Lord Maxton: So if you have a television and a box you have two power uses.

Mr Scott: Yes.

Q64 Lord Maxton: But if you have an integrated Freeview television does that use less power than the two boxes combined?

Mr Scott: I am afraid I do not know the answer to that question.

Q65 Lord Gordon of Strathblane: You mentioned that you have been able to cope with the request from DCMS and Ofcom to accommodate HDTV. Do I take it that that will become available to each area as switchover occurs?

Mr Scott: Broadly you are right. From switchover regions from now on those services will be introduced at that time. In addition to that there are some areas which will get the HD services before switchover. So London, for instance, will be getting HD services this year on Freeview, although switchover is not until 2012. This is a BBC-led project but my understanding is that about half of the country will be able to receive Freeview high definition services this summer, 2010.

Q66 Lord Gordon of Strathblane: Since you have just completed Granada people in Granada can receive HD terrestrial?

Mr Scott: The Winter Hill transmitter at the point of switchover in December was enabled for HD, yes. Part of the issue is that the consumer equipment is just coming to the market now, but the transmission services from Granada onwards will be done at switchover or before.

Q67 Lord Gordon of Strathblane: Is there not a danger that your very success in accommodating the Government's desire might lead them to say, "Could you manage 3D at the same time while you are at it?"

Mr Scott: Nobody has mentioned that; you are the first!

Q68 Lord Maxton: Part of the inquiry is the switch off to digital radio. Clearly when you switch to digital Freeview television you actually get radio stations on your television that you did not have before. Has that been part of the equation? Do you think that people have been drawn to it?

Mr Scott: I think that some people do absolutely enjoy listening to digital radio services through a Freeview box or through HDTV. Is that a major part of what we are doing now?

We are really focusing on television analogue switch-off and making certain that people can receive television afterwards.

Q69 Bishop of Manchester: Can I just return to the Help Scheme. I entirely understand the reasoning behind the point that there should be assistance only on one television in each home. On the other hand, I am sure we can all think of or know of situations where you have an elderly couple, each of whom is over 75; one of them is permanently bedridden and needing quite a lot of care and requires to have a television. But the other person who is also over 75 actually needs a bit of space and has, in a sense, equal needs of a different kind. I can see that in that sort of situation that there are powerful arguments for saying that each of them should be able to qualify for the kind of help the scheme gives. Has that been addressed at all?

Mr White: If one of the televisions in the home is already converted by the householder we will convert the television in the bedroom; so we would go in and convert one TV.

Q70 Bishop of Manchester: That is not quite what I am asking.

Mr White: We will go in and help if they have converted one. The scheme does not allow me to help on any more than one television per household, so it is a matter of policy. Because the conversion generally, even within this eligible group, is quite high we do not come across many of those cases and actually what we are finding is that there are a significant number of households in this group with still one television. So we have not come across a particularly significant issue with that.

Q71 Bishop of Manchester: I can see that if that situation were to arise – and I suspect it is actually quite considerable in the background – there appears to be plenty of money in the kitty which could cope with it.

Mr White: We do talk to eligible people who we have served; we do customer feedback; we listen to the phone and we do pass back trends to the DCMS if we spot things that could help. However that is not something that we have picked up.

Q72 Baroness Howe of Idlicote: I was wondering if you had given some thought to the Equality Bill going through Parliament because carers, which clearly would fall into this category, could well be listed as a recipient of what you are doing. So have you looked at that at all?

Mr White: The scheme agreement is very clear on who is eligible and not and the data, and we comply with the scheme agreement in that.

Q73 Baroness Howe of Idlicote: But it might make it something on which you could spend some of your money quite quickly and easily.

Mr White: We do spend a lot of time talking to the eligible people before we serve them and afterwards, and if we spot issues we do feed them back; but that is not something that we have particularly picked up.

Q74 Chairman: The surplus appears to be being spent several times over by different government departments, committees and goodness knows what. Let me ask a final question. Just to sum up, Mr Scott and then Mr White; just give us your overall impression on how the process has gone and whether you regard it as successful.

Mr Scott: So far we are 18 per cent of our way through this process but all the indications are that the digital television switchover project is on track and will conclude on time, and will be well within its budget.

Mr White: I am content with how the Help Scheme is delivered and I believe that take-up seems about right and appropriate. I think that the hard to reach are hard to reach and we are

putting a lot of effort in to reach them. We are not complacent and we can always do better, but I am generally content about how we have done so far.

Q75 Chairman: One thing that you have made absolutely clear is that you had no part yourself in the prediction of what the take-up was going to be.

Mr White: I have been predicting since I took over in May 2007 and forecasting based on take-up, but not before then, no.

Chairman: Thank you both very, very much for coming. You have given very clear evidence, and perhaps if we have other questions we might write to you. Thank you again for coming this morning.

Witnesses: **Mr Ford Ennals**, Chief Executive, Digital Radio UK and **Mr Barry Cox**, Chairman, Digital Radio Working Group, examined.

Q76 Chairman: Welcome and thank you very much for coming this morning. As you know, what we are doing is starting on a process of looking at the whole digital switchover process and we have just been taking evidence as far as television is concerned and now we would like to take some initial evidence as far as radio is concerned. This is very much our first session so we will be asking some fairly basic questions at this particular point. Could you just tell me, first of all, what was the background to the establishment of Digital Radio UK?

Mr Ennals: Digital Radio UK was born out of the consultation work, led by Mr Cox here, for the Digital Radio Working Group and also the Digital Britain Paper. Both groups identified the value of having a single body responsible for the development of digital radio within the UK and also for planning and managing a potential future digital radio switchover. So Digital Radio UK represents the industry; our shareholders are the BBC, all of the main commercial radio stations; the transmission company Arqiva. We have on our board representation from manufacturers in the trade body Intellect, and also from the car manufacturers in terms of the SMMT trade association. So what we do is really represent the industry, but also we are an action group. I should say that Mr Cox and I were a double act that came together for Digital UK on the TV switchover, where Barry is still Chairman and I was Chief Executive of Digital UK. So what this does is to give us an opportunity to take the learning from the TV switchover and bring it to radio switchover.

Q77 Chairman: Does the establishment of Digital Radio UK therefore mean that radio switchover will now definitely go ahead?

Mr Ennals: No decision obviously has been made about that point. The Bill that is currently being viewed in the House at the moment is a piece of enabling legislation. It would make it possible, six years hence from now, for a switchover to happen but only if the right and appropriate conditions were met in terms of both the share of listening, in terms of the build-out of the coverage; and also I think after wide consultation with all of the key stakeholders.

Q78 Chairman: We look at it not from the point of view necessarily of the industry but from the point of view of the public, the consumer, the customer and the person who wants to buy his radio set. Does that not cause a great deal of uncertainty and is that not part and parcel of what you are saying?

Mr Ennals: I think it is the contrary, with respect. On the TV switchover what galvanised the market and the industry and also benefited the consumer was the certainty of a digital future for television, and I think what we are talking about is securing a digital future for radio because we know what that will bring about is innovation, competition and choice, and also a reduction in prices both in terms of the equipment that the customer buys but also in terms of the transmission costs that the industry sees. What the Digital Britain Paper does and what the Bill seeks to do is to provide a roadmap for a digital future for radio and we think that that is in the interests of not just the industry but particularly of the consumer.

Q79 Chairman: But we do not know what the future is going to be. We do not know if there is going to be a total future. You have both come from the television switchover area, but we do not know whether that is the destination.

Mr Ennals: What the industry is saying – the broadcasters, the manufacturers, everyone involved – is that they really do believe that digital is the future of radio. We know that consumers who have digital radios love the listening experience and the functionality and we know that that is where the growth in the market will be. What the industry is also saying is

that there is a desire and determination to extend the coverage of digital radio in this country. At the moment 80 per cent of people cannot receive the BBC digital services that are broadcast.

Q80 Chairman: How many?

Mr Ennals: 20 per cent in home cannot receive them and as an industry we fervently believe that we should build out digital coverage to the same extent that FM is today, and we also believe that we need to provide a more robust signal in key areas so that we get the best possible listening experience. The industry is committed to following that path. At the same time we want to significantly improve the choice and the range of channels and stations available on digital; and at the same time we want to enable consumers to have more platforms on which they can get digital radio. So we are not just talking about DAB radios, we are also talking mobile phones and the Internet as well. We feel very strongly that this is the future, it is the future we have seen on television very successfully; it is the future we have seen on mobile phones and on the internet. So I think that radio very much wants to be part of that direction.

Q81 Chairman: Everything you say sounds to me as if you are working towards trying to get the public, the consumer to work towards switchover and a switchover date.

Mr Ennals: I apologise if that is the impression I am giving. What we are saying is that we are working towards the expansion and development of digital radio because we think that that is in the interests of the consumer and in the interests of the industry. It will only be for the Government to decide if there is a requirement to switch off the AM band and to reallocate channels as they move from FM to digital. That was put forward in the work that Mr Cox led and in Lord Carter's paper. What we are saying at the moment is that the first step is for us to develop digital, to monitor consumer reaction, to monitor take-up, monitor

listening, working with Ofcom and Government, and then provide a situation where in two to three years' time the Government can review this and make a clear policy decision.

Q82 Chairman: So we do not expect a clear policy decision until two or three years' time?

Mr Ennals: That is what is suggested in the Bill and I think that is something we would support. I think that within two years it will be a very good opportunity to stand back and review the development work that has gone on; to talk to customers, to talk to people like the Consumer Expert Group who represent vulnerable and older people; and after that broad consultation then Ofcom, the BBC and Government in two to three years' time will be well-placed to take a future decision.

Q83 Chairman: If I wanted to buy a new radio and I would go into John Lewis – although that is not a name to conjure with at the moment in Parliament – what would you advise me to do? Do you advise me to take an analogue set, a digital set? It is all up for grabs.

Mr Ennals: I am going to invite my colleague to answer whenever he wants to jump in because I do not want to hog the session. I would strongly advise you to buy a digital radio. The consumer experience is fantastic; the signal is very clear and also the range of channels is greater than you would have just on analogue. I do not know whether the noble Lords have listened to the BBC 7 service, which has wonderful drama and comedy and is a fantastic service.

Q84 Chairman: Are all the retailers plugged in to this point of view? Are they providing digital in the areas in which it can be provided?

Mr Ennals: What we see is that retailers currently provide analogue and digital sets. We are seeing a shift in the market and what is lovingly called the “kitchen radio”, which is predominantly the radio that is sold, the portable radio that we see most used in the home; that

now 70 to 80 per cent of that market has shifted to digital because that is what consumers are buying. But today you can still buy analogue radios or digital radios. If you buy a digital radio, it will have FM capability and digital capability.

Chairman: If you buy an analogue radio, you run the risk of being out of date, depending on your area, relatively soon.

Q85 Lord Maxton: You can buy radios which are both digital and FM.

Mr Ennals: Absolutely, my Lord.

Q86 Lord Maxton: Of course, you can also get ones which are internet radios as well, working off your wireless system.

Mr Ennals: That is absolutely correct. We see a big development in Wi-Fi radios. They are digital, they receive FM, but they are also Wi-Fi and so they can receive internet stations as well.

Q87 Lord King of Bridgwater: Lots of us have radios that have lasted for years and years. It seems to me at the moment that you have given some clear advice to the Chairman on what he should do, but how much do people really know what they are doing? People are still selling analogue sets, which people are buying in the expectation that they used to have, that they are buying a radio that will last them for 20 or 30 years, but they may now find that in five or ten years it is no good.

Mr Ennals: The earliest possible date that there might be a switchover would be six years plus from here, so it will be six to ten years away, I believe. We want to be responsible and transparent with consumers, so I think it is important for consumers to understand that there is the potential of a future switchover, so that they are informed when they make their purchase

that if they want a long-term item, they are probably better off buying digital, but they recognise that analogue may have only a relatively short-term existence.

Q88 Lord King of Bridgwater: Are you satisfied that retailers are telling people what the situation is?

Mr Ennals: One of the reasons Digital Radio UK has been set up – and, once again, it was only set up at the end of last year and I have only come on board in the last month – is to really make that happen, to focus on consumer education, consumer understanding and consumer communication. We are already talking to retailers and manufacturers, and when you go into, say, John Lewis the sales assistants need to know the facts and be able to relate that clearly to consumers.

Q89 Lord King of Bridgwater: That is the most important point, is it not? Is any checking being done to see what the retailers are saying?

Mr Ennals: For Digital UK Mr Cox and I put in place, on the TV side, a training model for all service staff in stores. We then did a review, a check and an independent assessment, to see that consumers were getting the right advice about TVs. There is a lot of learning from that which we would want to replicate on radio. Yes, we will be partnering with retailers to make sure they are giving the right advice.

Q90 Lord King of Bridgwater: Is 80 per cent of the sale of radios in the hands of five big chains?

Mr Ennals: There is a very strong independent sector still in existence. There is probably a balance between the big multiples, the John Lewises and the Currys of this world, and the independents. Increasingly the supermarkets are playing a major role: Sainsbury, Asda and Tesco. It is quite widely spread still.

Q91 Lord King of Bridgwater: You get five supermarkets and five of the major multiples, and those are presumably your first target, to make sure they are trained and that there is some real impact on them as to what they are telling you.

Mr Ennals: Very much so. We have already set up meetings with John Lewis and Currys and, indeed, with Tesco and Sainsbury. It is interesting – and this is a part of the expectation of the development of the market – that we are now seeing digital radios being sold for £25, so we have seen a fundamental shift in terms of the pricing of the market because of more competition. We saw the same on the TV market.

Q92 Lord Gordon of Strathblane: Perhaps I could ask this question of Mr Cox. Just to give everyone the overall picture, would you give us a rough estimate of how many digital sets there are in the UK and how many analogue sets?

Mr Cox: There are still more analogue than digital. The share of audience, as I understand it, for digital listening is under 20 per cent. In the report it was 17.1 per cent, and that is a year ago, so it is probably more than that now. I think that 30 per cent of households had digital. I do not have those figures to hand, but I know it is a minority. There is no doubt about that.

Q93 Lord Gordon of Strathblane: If I volunteer a figure, perhaps you will say if it is roughly right: there are probably ten million digital sets and perhaps 100 million analogue.

Mr Ennals: Perhaps I could add to what Mr Cox was saying. We announced at the end of last year that there were now ten million digital sets having been sold. There were another 500,000 sold last month, so there are now 10.5 million sets out there. Ofcom have done an analysis that suggests there are about 15 million radios actively in use. Numbers vary on this but there are probably twice as many radios in place. There is probably a universe of about 100 million radios. Ofcom believe that 50 million of them are actively being used. They have done the research to suggest that. Within that, you have ten million that are digital. As

Mr Cox said, you still have a strongly analogue-biased market and this is very similar to where we sat in 2003 on televisions.

Q94 Lord Gordon of Strathblane: There is, I might suggest, a vital difference. It is comparatively easy and cheap to convert a television set to digital with a set-top box that you can buy from Tesco for £20. Can you do that to an analogue radio set?

Mr Ennals: I fully expect that there will be low-cost converters available. We were talking to companies which were making these last week, and they are talking about DAB adaptors for about £20 or £25. When the DTT Freeview development started, those products were costing over £100. The market will become more competitive, prices will come down. You can replace your radio for £25 with a digital radio. There will be a burden of cost on the consumer, but it is significantly more affordable than it would have been in the past.

Q95 Lord Gordon of Strathblane: If it is as cheap to buy a new digital set as it is to buy a converter, there is a fair disposal problem involved in 50 to 100 million radio sets that are good to go to the rubbish dump.

Mr Cox: There is undoubtedly a difference with television because you can keep your old set and put the adaptor on it. I heard what Ford was saying, and it would be useful if some adaptors come on the market, but the likelihood is that many of those analogue sets will have to be disposed of. There are people beginning to think of what they could do with those, in terms of sending them abroad or whatever, but it is undoubtedly a difference between television and radio that most of the sets will not be used again, I suspect.

Q96 Lord Gordon of Strathblane: I think 95 per cent of the radio industry are with you on this. You will be aware that there is a breakaway move, largely led by UTV, who are fairly

vociferous. One of the points I would invite you to respond to is they would argue that DAB itself is outdated technology; that you should be going for DAB plus.

Mr Cox: We looked at this in the Radio Working Group. Indeed, UTV were a member of that group and did not make this point at the time. It is undoubtedly true that we were pestered by quite a lot of people – “pestered” is not a fair word – lobbied by people who said, “You should move on from DAB,” and there is a perfectly good case for saying that. On the case for staying with DAB, one very important point is that the key technology, the silicon chips, will be multimedia. They can do DAB, DAB plus, any of the variants that are in the EU radio family. That is of crucial importance for cars. Cars are not going to make sets - and cars are a very big part of the market obviously - unless they have that guarantee that it would be useable for a decent time, even if you either went to a country which had DAB plus or – as may well happen in this country in a couple of decades’ time or even less – we switched to DAB plus. That is perfectly possible and the sets that we recommended that were built are going to be not only for taking FM but DAB and other services if they are turned on in the future.

Q97 Lord Gordon of Strathblane: For clarification, that is going to be true of digital sets from now on. Is it true of existing sets?

Mr Cox: No. This has only been a recommendation, and I do not suppose the manufacturers have embraced it yet, but you can see that this is trying to be a future-proof, going forward, with what we do.

Mr Ennals: It is interesting that UTV are fundamentally absolutely committed to a digital future. They raise a question on the timescale of that as to what is the appropriate and best timescale. Once again, the Bill does not define a time; it just says the earliest time is in six years’ time but it could be beyond that if the conditions are not met. They have asked to be on the Digital Radio UK board, so they are very keen to participate in the development of

digital radio. They have talked about how they can maximise the number of stations that move to digital. They are very much in favour of digital. What they are discussing is the different tactics in approach that should be taken

Q98 Lord Gordon of Strathblane: One of the other points that they allege is that 120 existing commercial stations are going to be left behind and have no digital future. How would you respond to that?

Mr Cox: This did come up in our work. That is why we said that the digital migration – which is the word we prefer to use – would occur for the national services and the major local services, but we absolutely anticipated that both community radio stations and small commercial radio stations would want to stay analogue, would not be able to afford to move to digital. That was laid out clearly. What is a small station has not been decided and it is going to take some probably quite bloody conversations. But there was a recognition that there had to be a future for some very small stations, and not expect them to go digital.

Q99 Lord Maxton: One of the big differences between television and radio is that the big use of radios is in cars. What sort of progress have you made in getting agreements with the car manufacturers to put these into new cars?

Mr Cox: The motor manufactures were part of the group – quite vociferous on some occasions – but they did not object to the timetable that we laid out. I ought to be clear about this: Digital Britain rather speeded the timetable up. We said we did not believe the Government would be ready until 2015 to say, “Two years’ time, 2017, we will have the switch.” Digital Britain brought it forward two years, implying that we would know in three years’ time that we could make the switch. They may be right, I do not know.

Q100 Lord Maxton: Your judgment would be that they are not.

Mr Cox: The judgment we made was that the timetable we set out was a reasonable one. Of course, we could fail to make that. That is built in. That is an uncertainty which exists. It is unfortunate, but it is the only way that you can go forward consensually that you have to meet the criteria before digital transfer happens. You are quite right about the cars: they were happy with that timetable as we laid it out. The great news is that all the European manufacturers are going to move. They have the same problem, because other countries are moving as well of course, and the common chip, thank God, solves the problem which would otherwise have been very, very difficult. In addition, I know there are devices – I have not seen them but I am told they are a bit like SatNav – which you can stick on your windscreen to get digital radio. That is a bit of do-it-yourself by radio manufacturers which the car manufactures do not particularly like, but it is an answer. We can see that new cars being fitted with digital will happen within the timetable we were talking about, and older cars can buy equipment which will enable them to receive digital transmissions.

Q101 Lord Maxton: Have any car manufacturers started to do this? I believe Ford may be in the process of doing it.

Mr Ennals: Yes. The Car Manufacturer Association, consulting with all of the major car manufacturers, have confirmed that all radios in cars will move to digital as standard before the date. They have agreed that they can do that before the 2015 date. That is good news. They have also asked to be on the Digital Radio UK Board, and they will be.

Q102 Chairman: You say that they have agreed to move before the date.

Mr Ennals: They have agreed to move before 2015.

Q103 Chairman: That means that they will go on their own sweet way until 2015.

Mr Ennals: They have agreed that by 2015 they will have moved. They are very supportive of our work on developing and extending coverage, because that is important for them and they know that is ongoing. This year we know that a leading manufacturer will move its leading model, the best selling car in the UK, to introduce digital radio as standard, so we are beginning to see movement. We tend to find in industry that once a path is set it is going to accelerate rather than delay. Barry is absolutely right, the big issue for us all is to sort out the in-car converter for existing cars, and that needs to be certainly much better than it is. At the moment it is a first-generation type. It is like a SatNav device. Something needs to be done that is seamless, that is behind the dashboard and is cheap and easy to install. That is where effort is being put at the moment.

Q104 Lord Maxton: I gather that one does require that you have a free FM band on your radio. Anybody who drives any distance knows that the free FM band may suddenly be used up by a station as you drive down the road – which presumably means you would lose your digital – which you used to be able to do with the old iPod transmitters.

Mr Cox: This touches on one of the more interesting problems in this process. We did lay down coverage criteria that the national services, BBC and commercial, should be the equivalent of the current analogue services. The local multiplexes are a problem, because, as you say, when driving around the country that is often the only thing you can get and not one of the ones you want to get. They are more problematic, in that the way they have been set up is not, with hindsight, as sensible as it might have been. We did recommend that Ofcom looked at the structure of the local multiplexes, the ownership and the regulations on them, to try to improve it, to consolidate it where necessary and not allowed at the moment. We made the same point to the Government, that it would need a change in legislation. The point is that the local multiplexes must reach 90 per cent of the population. I do not think they do

currently. That is both a signal power thing, which Ford has already mentioned, but also an organisational thing.

Q105 Lord Maxton: SatNav companies use traffic reports which are provided by FM radio. The SatNav companies are, therefore, analogue themselves. Are the SatNav companies involved in the discussions on this at all?

Mr Cox: The SatNav companies need to be part of the future consultation. It is a question one should put to Intellect on their behalf. From the work we have done investigating this in response to your amendment, certainly they can continue to get their traffic report signal via FM, so that will not be impacted. That capability will still be there in the future, but I endorse that. I think that SatNav companies need to be consulted by government and by Digital Radio UK going forward.

Q106 Lord Inglewood: In response to Lord Gordon you talked about DAB and DAB plus, and then you raised other systems on the Continent. We talk about digital as if it is a homogenous single entity, but in fact it is a number of variations on the theme. In very simple quick terms, what are the advantages and disadvantages of the various systems? Why should one be better than another?

Mr Cox: I certainly cannot describe it. The people in the group, who included engineers and people qualified to make that judgment, did not think there were any advantages of DAB plus. It essentially gives you more capacity than DAB: you get more stations. To be honest – and this is slightly cheeky of me – I think we have too much radio already. We certainly have too much capacity. The last thing we need is to bring in a digital system which will increase the capacity at this stage, because the starting point for radio is that it could not afford dual transmission. That point has already been made. When you look at the 15 per cent fall in revenues last year, God knows what it is this year, but it cannot be much better, plus running

two transmission systems, it is not a robust industry. Many of these stations are relatively small and are carrying formidable costs. One of the features is that the way the local multiplexes are organised gives too much capacity which they do not need. There is an advantage, DAB plus, which gives you more capacity. No-one said at the group, “We don’t want that. It’s too much”, but the conclusion I drew from chairing the group was that that was one of the hidden reasons. We do not need it at the moment and probably not for another ten or 20 years, but we will be able to bring it in if we think it is necessary. I was listening to the discussion on television, and, yes, there was high definition television vaguely thought of, but we did not have any plans for bringing in high definition television on the Freeview platform. Within four years, we have had to rework the multiplexes, rework the allocation of frequencies. There has been some pain: ITV3 has disappeared from homes in which it was a very popular service, and that is unfortunate, homes that cannot get yet high definition as a compensation, but it was a major challenge which has been worked through. If we can do that in television, we sure as hell can do that in radio going forward. Signalling out DAB is a perfectly good thing for now, but if it turns out that DAB plus or whatever the other one is that is in there somewhere is better, we could change.

Mr Ennals: DAB is in the UK, Denmark, Norway, China, currently in Germany, and some of the other markets are moving to DAB plus. As Barry said, we will see multi-standard chips in the marketplace that can allow you to receive both. If the industry and regulators decide it is the future direction, there will be the opportunity to upgrade.

Q107 Lord Inglewood: You are telling us that, because of the common chip, it will be possible, if I can put it in this way, to have a second phase of switch-off, converting from one form of delivery to another.

Mr Cox: Correct.

Q108 Lord Gordon of Strathblane: People in the radio industry have said to me that more has happened in the last six months than had happened in the previous three years. Given that is my impression as well, should Mr Cox's committee really not have been set up ten years ago, minimum?

Mr Cox: I cannot answer that question. You are right. It was said to me at the time by someone who used to work for you, "This is amazing. We never thought this would happen that we would produce a report as universally as supportive as this." I do not know why that is but clearly there has been a pre-history which has not been favourable. That is all I can say.

Q109 Lord Gordon of Strathblane: One of your recommendations which seems to be quite important is that the Government should conduct a cost-benefit analysis.

Mr Cox: Correct.

Q110 Lord Gordon of Strathblane: There are stories that in fact they have done, they just have not published it.

Mr Ennals: A piece of work has been done for Ofcom which does show a positive net present value as a result of that. I have just come from BIS before this session, and they are committed to doing a full impact assessment as part of any future action planning. I think they will revise and review the cost-benefit analysis at that point. The current one is positive, though.

Q111 Lord Gordon of Strathblane: Could you share with us any written material you have on the cost-benefit analysis, perhaps by sending it to us?

Mr Ennals: I will ask Ofcom to.

Mr Cox: DCMS are saying yes. There was a PWC report which I do not believe you have had, My Lord Chairman.

Mr Ennals: I believe it is in the public domain.

Q112 Chairman: What progress has been made so far on the national infrastructure required for national digital radio?

Mr Ennals: Everything has happened very, very quickly, as Lord Gordon has said in terms of Barry's report, the Working Group, and the Digital Britain report. We have established Digital Radio with a remit to develop digital radio within the UK to a potential switchover. The first part of the infrastructure is a requirement for a technical plan to extend the coverage. We have just initiated that work now. I do not anticipate that work will complete until towards the end of this year, so one of the things we have to do – and this will be led by Arqiva, I am sure involving Ofcom – is to look at the detailed re-planning of the moxies in the digital world. We also need to identify and secure funding to make that happen. That work is underway. That is the most pivotal. The second key thing is the car industry. We have already touched on that. The third thing is about consumers, about consumer education, consumer awareness, training in retail to make that happen. Those programmes are now underway but they are just at the start.

Q113 Chairman: Would one aim of the technical plan, the infrastructure plan, be to bring in the people who at the moment are excluded from digital – I mean the 20 per cent?

Mr Ennals: Absolutely. Once again, it was stipulated in Mr Cox's report and in Lord Carter's paper that the intention is to ensure that we extend digital coverage to the same level as FM coverage is today. The 20 per cent of the people I referred to earlier who cannot receive the BBC digital services who will be able to as a result of the expansion of coverage.

Q114 Chairman: Tell me about funding.

Mr Cox: We have said in the report that the BBC would have to extend it, and this then all gets tied up with what happens to the digital dividend from television which, as you said in the earlier session, there are over 100 people queuing up for.

Q115 Chairman: We have spent it at least three times.

Mr Cox: All I would say is that from my private conversations with BBC people, for what they are worth, and they may be not worth very much, they incline towards using some of the money for extending their national DAB radio coverage. That is what they were saying. Whether they still say it, I do not know. They have certainly not said it in public. It is obvious that this is digital money. It is a slightly easier thing to say, "Let's complete the digital radio infrastructure using this" than to give it off to broadband, local news, ITV or something like that, but they are perfectly good causes and they may well win.

Q116 Chairman: Do you envisage the same amount of cost which would be required as to television?

Mr Cox: I do not think so.

Mr Ennals: The scale of costs would be far less, but there is a significant investment to be made, and I think Barry is right.

Q117 Chairman: Do you have any idea what that would be?

Mr Ennals: It has not been finalised and it would be wrong for me to put a number on it.

Q118 Chairman: So you do have an idea of what it would be.

Mr Ennals: I am aware of the numbers that have been discussed but it would be wrong for me to put them here. It is a question for the BBC, Arqiva and the commercial broadcasters.

Q119 Chairman: Would there be a help scheme?

Mr Cox: We have recommended that this should be looked at. We said it should be looked at as part of the cost-benefit analysis. I am not quite sure why we said that at the moment. There are two sides to this. It does not look anything like as difficult for consumers to get for radio as it is for television. The existing radio antennae do not need to be changed, so there is no re-tuning of that kind to go on, with all that that entails. That is one point. Secondly, there is already a wonderful scheme – I think it is called Wires for the Bedroom – which is in part funded by the BBC and is a help scheme. They have captured part of the constituency. My personal view is the Government, DCMS and the BBC should agree to see that expanded. They do the job already. Maybe that will not work, but that is what I mean. There is already a mini-help scheme and not as many people are likely to need the help for radio but, nonetheless, my private belief is that there should be one and we recommended that this should be part of the cost-benefit analysis when it is done.

Q120 Chairman: In précis there will be a cost involved, but the cost is not, on either side, whether it is on the reorganisation and development or whether it is on the help scheme, in the order of television switchover.

Mr Ennals: No.

Mr Cox: No. Correct.

Q121 Lord Maxton: Mr Ennals, several times you have referred to this 20 per cent who cannot get digital radio, but that does not presumably include those who can get digital radio through their television. Freeview, Sky, it does not include those.

Mr Ennals: Obviously a number of services are available via DTV, via television, and a surprising number of people do listen to some radio over their television.

Q122 Lord Maxton: Will some smart manufacturer not work out that you could produce a Wi-Fi system that attached to a radio within your house?

Mr Ennals: It does not include a number of people who can and do listen on the internet. There is a proportion there. As you have said, some radios will be Wi-Fi enabled; nevertheless, 40 per cent of radio listening is done out of the home. That is why the broadcasting tradition is so important. It is very important, as I said, and it is only fair, that that 20 per cent have access to the services which indeed they are paying for through the licence fee.

Q123 Bishop of Manchester: I would like to come back to the issue of community radio, which I think is hugely important in terms of local well-being. I am thinking there of, for example, geographically-defined stations, and we are all familiar with the many local community stations there are. I am thinking of interest-defined stations, and I suppose you could put something like hospital radio into that, and I am thinking of identity-defined radio stations, such as, for example, a local Asian station. I have examples of all those in my own area where I work and I know that a lot of them are really very concerned about the future. Your recommendation in the working report is the continuation of FM alongside rather than a complete switchover. What would you be advising people in what they feel to be very vulnerable situations to be doing about all this? What do you feel anyway in real practical terms can be achieved in order to enable these small stations to survive beyond digitalisation?

Mr Cox: As you have absolutely clearly said, the first point is that there will be frequencies for these stations on FM. Again, as has been said, the chip that will deliver analogue radio and digital radio means that when you buy a radio set you can move between these. I believe they are at no risk of losing their ability to broadcast. We have taken the point that this is too expensive for them at the moment and therefore they will continue. I do not know whether it will affect audiences, but I would imagine keen audiences would keep an analogue radio.

They will want to listen to it. Longer term is where DAB plus comes in. There was a view, not particularly well researched or anything, which said that is where those stations which have not gone digital in 2015 or 2017, or whenever it is, get the chance to go, because we do believe that even the community stations in 15 years' time will not want to be on analogue. That is my view. They need a chance to move and we envisage that will be possible for them.

Mr Ennals: I have a press release in front of me that has been released today by the Community Media Association which represents 200 licensed community services. They are saying that they absolutely support the Digital Economy Bill. They believe it benefits community radio, it allows them to expand the number of services. FM is full at the moment and they are restricted in terms of the number of services that can be supported. It also provides a platform for hospital radio, university radio, and indeed for local commercial radio. Jacky Devereux, the head of the CMA, has released this today. They are welcoming the Bill and welcoming the opportunity to secure and expand their presence on the FM frequency.

Q124 Bishop of Manchester: You are saying that these people I have mentioned in general terms, who were expressing to me very great concern about their future viability, need not worry.

Mr Cox: They would not have to worry about paying more than they do now for the transmission. In so far as they are funded through advertising, who knows where that is going to go. In so far as they do not rely on advertising, they are fine.

Mr Ennals: They have a platform, they have a home, and they will be supported. We have also announced over the last few days that there would be the development of a seamless unified guide that would allow people to receive FM channels and digital channels at the same time when they set up their radio. We are very keen to support a healthy and active development of FM as well, in parallel with digital.

Bishop of Manchester: That is an encouraging answer. Thank you.

Q125 Lord Inglewood: Following up the Bishop of Manchester's questioning, do you anticipate more effective digital compression, to enable the amount of spectrum you envisage being available for digital radio being able to carry more channels?

Mr Cox: The only answer I can give to you is one I have already made. When we looked at the different technologies, we saw DAB plus could do that. I do not know whether that is the compression factor or not. I do not know the answer. It seems to me from the way digital is going that there are going to be developments which might well deliver what you say, but that is speculation. I have no firm evidence of that at the moment.

Q126 Baroness Howe of Idlicote: The Digital Radio Working Group did recommend research on the ownership and the use of analogue and digital radio particularly among disadvantaged groups and older people. Asian groups have already been referred to, with their first language not being English, and the lower socio-economic groups. How far has this research gone? Obviously we have heard from Mr Cox that it would have been a good idea if the help scheme had been available for radio users as well, but it clearly has not been.

Mr Cox: I am sure it will happen that when radio does announce the migration, there is a help scheme in place. I can see why it has not been put in place just yet.

Q127 Baroness Howe of Idlicote: Obviously there will be less of a problem, but nevertheless those groups will have certain problems.

Mr Ennals: I did not talk about the help scheme, but I am very sympathetic about those who put forward a suggestion that there should be a help scheme, because, while the issues may be less intense and less physical than they are with TV – you do not have to move TVs, you do not have to re-plug everything in – there is an understanding issue, and I think we ought to do everything we can to help those people who are more vulnerable in society to understand what is happening. We know that older people are very dependent on their radios. They

listen to more radio than anyone else. One of the great things that Digital UK has done is to set up a network working with Age Concern and local community groups. I would hope that we could tap into that same network. It would involve people like Wireless for the Bedridden and those who are already active in communities. It is something that we will work on. With regard to research, Ofcom had a duty under the Bill, and indeed recommended by you, to provide a tracking and research to understand how people are using digital radio and what are the listening patterns. We are meeting with them to discuss what are the future research needs. That piece of work you suggest is something that I would like to put in place this year, but it has not occurred this year.

Q128 Lord Macdonald of Tradeston: I assume that digital radio, like digital television, will use more power when it comes into general use. I do not know whether you can enlighten us as to whether this is for radio and television, but we saw a figure of nearly £1 billion a year extra in power consumption which would have to be paid for by consumers. Do you intend to dig into this more deeply, or do you plan any kind of environmental impact assessments? This would also cover the dumping of sets by the tens of millions, presumably.

Mr Ennals: As part of the detailed impact assessment the Government will do and the revised CBA, they will also be looking at the environmental impact, similar to the work BIS did for digital TV switchover. They have already talked to Defra and it is something that will go forward. It is a real live issue and we need to better understand it. It is a different scale of issue than TVs. The power consumption, the power output, is less than one-tenth of television for radio. The market and the industry are very focused on energy efficiency now. There has been a 75 per cent reduction in terms of energy usage by digital radios over the last five years according to Intellect, and I saw some data yesterday which suggested that an average digital radio uses as much power as a quarter of an energy efficient light bulb and at a cost of about £1.20 a year. Once again, I am not dismissing the issue. It is live and we need

to better understand it, but the scale is very different from when we were doing this on television, but that will go forward.

Q129 Lord Macdonald of Tradeston: At an anecdotal level, we have heard that batteries run out much more quickly. Is this a concern that has come back to you?

Mr Ennals: Once again, it is something that we need to review. I have discussed it with manufacturers. Indeed Roberts set up a piece of research that indicated that they get more life for less battery on their digital radios, so they believe that it is the contrary. Given that I am hearing contradictory views, I think it is something we need to look at more closely.

Mr Cox: I have heard the same stories as you.

Chairman: I have just been sold a battery for some exorbitant amount of money – £28, I think – which tells me it will last for two years.

Baroness Eccles of Moulton: It is rechargeable.

Chairman: It is rechargeable, yes. Anyway, as that point has fallen flat, Lady Eccles has a question.

Q130 Baroness Eccles of Moulton: The question on the digital dividend, the release of frequency, has already been partly answered. I do not know if there is anything that you would like to add to the benefit of the release of spectrum through switchover to digital.

Mr Cox: When we did our work, we assumed – whilst it was not quite spelt out, there was an absolutely background assumption – that there would be no digital dividend. The experts in this field said these frequencies are not worth anything. Instinctively I do not believe that. There must be some use for them. Indeed, Ford has spelled out the work going on to make sure that they can continue to be used for radio, so that is something. I am sure it will not be on the scale of television, but what it will be there is no clear evidence. Some people said the

pirates would fill it – and maybe some of them will try to do that – but no alternative to radio was obvious at the time and I do not know that any has come up since.

Mr Ennals: That is absolutely right. It is not anticipated that there will be a digital dividend in those terms. The dividend is in terms of an industry that has a clear and healthy future and a consumer that has more competition and more choice.

Q131 Baroness Eccles of Moulton: Could I ask you a question about the multi-standard chip. This presumably is a little bit of electronic device that can be installed which means that you can receive both FM and DAB at the same time.

Mr Ennals: Not quite. At the moment digital radios, almost as standard, have FM and DAB. If you buy a radio today, you will get the ability to listen to FM, and that is critical because FM will continue. The multi-standard chip is a combination of DAB, DAB plus, and it does allow you to receive the other standard in the same family called DMB. That would mean in the future, if we were broadcasting using those technologies, that a receiver could potentially pick up those signals. That is a direction the industry is going, because that would enable them to have receivers sold across any country within Europe, but that is a future direction.

Q132 Baroness Eccles of Moulton: Is it very inexpensive?

Mr Ennals: It will not impact on the expense to the consumer, no. It is relatively inexpensive for them to do.

Q133 Baroness Eccles of Moulton: Presumably, if that is a technological development that really takes hold, then the small community broadcasters would be able to continue to use FM.

Mr Ennals: Certainly the intention is, and the stated plan is for the community radio stations, to use FM. Indeed, with the BBC and all the other big national stations moving to digital, that

clears a very significant space for them to expand the services. We can give some comfort to community stations that they have a secure future.

Q134 Lord Gordon of Strathblane: You could be moving towards something that is not digital switchover but digital expansion or some other word.

Mr Ennals: Yes.

Mr Cox: We should not use the word “switchover”. Television are adamant they should not use the word “switchover”. In this report we called it “digital migration”.

Q135 Baroness Eccles of Moulton: Migration. That is the word.

Mr Cox: I think that might be a better term.

Q136 Chairman: It is a bit late for a new term to be introduced, if you do not mind me saying so! You say that the consumer benefit is more channels and more choice. But radio revenues are falling, so it is not entirely clear to me how such an extension of choice is going to be funded.

Mr Ennals: Within that there are fundamental functional benefits of digital that analogue cannot do. The way people consume media has fundamentally changed. Originally when they introduced things called DVR, everybody said, “I don’t need one of those,” but now people love to record BBC programmes and ITV programmes. They love to be able to pause and rewind live content. Digital allows you to do those things. There are other benefits as well. On your point about the economics, I think the economics for radio have been challenging in terms of a delivery of news services and new stations. The industry strongly believes the security and certainty provided by this Bill will enable and encourage the industry and broadcasters to invest and innovate in terms of additional programming. We saw that on the TV side, where initially some of the old analogue stations were somewhat

reluctant to invest in their digital offspring, but when the path became clear they then invested and I think have built a very healthy business.

Q137 Chairman: I am a little puzzled about the timing for this. From everything you have been saying, it sounds to me as though having an enabling Bill is an extremely good idea. It is going to be a long process. I will not say the longer the better, but it is certainly not a process which sounds to be capable of being rushed. On the other hand, you then have the concern, I imagine, of the bigger stations, or some of the bigger stations, that on the cost of having both FM and digital together, from their point of view, the sooner you do it the better. Is that one of the dilemmas?

Mr Cox: We looked at this in our work. One of the things that we said, to which the Government has now agreed – it did not immediately agree to it – was that the dual analogue and digital licences should not be put out for auction and tendering when they fell due; they should be automatically renewed to an incumbent who was going to do digital.

Q138 Chairman: There is a certain controversy about that, I gather.

Mr Cox: There was.

Q139 Chairman: And is.

Mr Cox: There probably still is. It did seem to us, and common sense would say, that you cannot expect a bunch of people to put money in now and for another several years if they are going to lose their licence to some Johnny come lately, or indeed some old veteran, who just bids because there is an auction. That struck me as being unreasonable.

Q140 Chairman: That is the deal.

Mr Cox: Lord Carter did not like to do it immediately. As I understand, he wanted to get something more back from the radio industry. I think there is a deal in place on renewing these licences, yes.

Q141 Baroness Howe of Idlicote: One last point on the FM fallback, continuing for something like twelve and a half years theoretically, if needed. That is one of the figures. Supposing this has not happened – and it is a long-term process, there are all sorts of arguments going on, and twelve and a half years, say, have passed or else the crucial point – might it not be a better idea to get some amendment into the Economy Bill which makes it possible, if the deal has not been done, to move beyond twelve and a half years to when the deal is done?

Mr Cox: Is the twelve and a half in the Bill?

Q142 Baroness Howe of Idlicote: Twelve and a half years seems to be a figure that stuck in my mind.

Mr Ennals: There is the potential reference to the expansion of licences from a five year period to a 12-year period. That may be what you are thinking of.

Q143 Baroness Howe of Idlicote: That is probably what I am thinking of, yes.

Mr Cox: We have no sense of when the FM fallback – in the rather nice way you have put it – would run out: there would not be people who wanted it, it would all have gone. All we did is say that we believe they will want to move to digital, and DAB plus or whatever in due course, no time specified. They would be able to afford to do it. That was always said. As far as I know, it is open-ended in that sense.

Baroness Howe of Idlicote: Because there quite clearly are some radio stations who are concerned about this, and, indeed, some areas which do not have coverage at the moment. I just wanted your views on that.

Q144 Lord Maxton: In twelve and a half years, technology will have moved on.

Mr Ennals: We have learned from TV switchover the pace of change and, also, consumers' willingness to adopt new technology. If you think about how many iPods people have and how many times they buy an upgrade to a new mobile phone. When the Government announced, when Barry and I came together as Digital UK, that switchover was going to happen on TV, the household penetration was about 57 per cent of the country. Just less than 60 per cent had digital television. By 2008 it was 90 per cent. We saw that with the certainty of the decision it galvanised industry, the consumer got excited by the channels and it moved very quickly. Potentially it will happen quite quickly if, once again, the Bill is passed and if there is clarity about the future.

Q145 Chairman: You did say certainty of decision, and I can think of at least two business models in which it is not in the equation just now.

Mr Ennals: No.

Lord Gordon of Strathblane: It is more certain than it has ever been, Chairman.

Q146 Lord St John of Bletso: Lord Gordon has comprehensively covered the issue on the DAB standard, but what quality standards are there to ensure that digital radio receivers sold in the United Kingdom are met with the world's DMB profile environment?

Mr Ennals: Work and discussions are ongoing at the moment between Intellect, Digital Radio UK and BIS about what should be the appropriate core receiver standard specification and, indeed, how we should identify it and how we should police it. Under review is the

potential of having a digital radio mast that can be used on those receivers that provide FM, meet the standards, maybe have the multi-standard chip. We are putting in place a sort of testing and policing infrastructure which can support that this year. In doing so, we will be in conversation with DMB which provide the current standard.

Q147 Lord Macdonald of Tradeston: Since we started this inquiry the received wisdom coming in, certainly to me, has been that there has been uncommonly good progress on the switchover on television, but the real problematic area always going to be radio. In that context I find your presentation this morning very reassuring. How would you rank, going forward, the three biggest problems that you will face?

Mr Cox: The Working Group envisaged they were the underlying economy of the radio services – which is not healthy, and the Government and Ofcom had to make them more profitable by deregulation; the car issue – although that looks as though it will be solved; and the complexity of having local and national multiplexes – I know you will need them, but Ofcom were strongly encouraged to review this and I do not know whether they are. They would be my three.

Mr Ennals: The only thing I would add is probably the funding to secure the coverage build out. That is absolutely fundamental to our future plans. Like Barry, I hear a lot of assurances that that will be forthcoming, but we need to have that confirmed.

Chairman: That sounds like a good menu for us. This has been the first meeting and I am very, very grateful to you for setting out, as you have so clearly and so frankly, what the issues are. Thank you very much for coming.