consumers and communications in Scotland
About the Scottish Consumer Council

The Scottish Consumer Council (SCC) was set up by government in 1975. Our purpose is to promote the interests of consumers in Scotland, with particular regard to those people who experience disadvantage in society. While producers of goods and services are usually well-organised and articulate when protecting their own interests, individual consumers very often are not. The people whose interests we represent are consumers of all kinds: they may be patients, tenants, parents, solicitors’ clients, public transport users, or simply shoppers in a supermarket.

Consumers benefit from efficient and effective services in the public and private sectors. Service-providers benefit from discriminating consumers. A balanced partnership between the two is essential and the SCC seeks to develop this partnership by:

- carrying out research into consumer issues and concerns;
- informing key policy and decision-makers about consumer concerns and issues;
- influencing key policy and decision-making processes;
- informing and raising awareness among consumers.

The SCC is part of the National Consumer Council (NCC) and is sponsored by the Department of Trade and Industry. The SCC’s Chairman and Council members are appointed by the Secretary of State for Trade and Industry in consultation with the Secretary of State for Scotland. Future appointments will be in consultation with the First Minister. Martyn Evans, the SCC’s Director, leads the staff team.

Please check our web site at www.scotconsumer.org.uk for news about our publications.

Scottish Consumer Council
Royal Exchange House
100 Queen Street
Glasgow G1 3DN

Telephone 0141 226 5261
Facsimile 0141 221 0731
www.scotconsumer.org.uk

Written by Trisha McAuley and Colin Meek

A summary of this report, Reaching Out, is available from our office, price £10.00 or can be downloaded from our website free of charge.

The SCC assesses the consumer perspective in any situation by analysing the position of consumers against a set of consumer principles.

These are:

ACCESS
Can consumers actually get the goods or services they need or want?

CHOICE
Can consumers affect the way the goods and services are provided through their own choice?

INFORMATION
Do consumers have the information they need, presented in the way they want, to make informed choices?

REDRESS
If something goes wrong, can it be put right?

SAFETY
Are standards as high as they can reasonably be?

FAIRNESS
Are consumers subject to arbitrary discrimination for reasons unconnected with their characteristics as consumers?

REPRESENTATION
If consumers cannot affect what is provided through their own choices, are there other effective means for their views to be represented?

We can often make our publications available in braille or large print, on audio tape or computer disk. Please contact us for details.
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INTRODUCTION

According to the government, the pace and scope of change being seen in the information technology sectors is so important that it is “fuelling a democratic revolution of knowledge and active citizenship”.¹

These changes are transforming the way we relate to each other. Communications technology is changing our leisure time, how we shop, how we work, bank and seek medical care. It may eventually dictate how we vote.

For almost everyone this revolution is a dizzying challenge. The technologies involved are complex. Wrong choices are easy and cost-effective choices are not always obvious. As communication ‘platforms’ change, so too does the content carried. New services - such as Internet banking - are only available to those with access to the technology. Some goods, services and even job opportunities are only available on the Internet.

Few would dispute that the communications revolution is an important issue for society. However, it is important to recognise that this revolution still lacks substance for many people. Internet users and digital TV subscribers are still a minority. Broadband may remain an option only for those in concentrated urban areas who can justify the cost, and in an age of WAP and ISDN it is worth remembering that people in at least two per cent of Scottish homes don’t have access to any type of telephone.²

Some of the issues raised by the changing communications market are crucial to people as consumers and citizens. As the technology becomes more and more pervasive, access to it becomes more important if we are
to be able to participate fully in society and reach services enjoyed by others.

Overall, the evidence in this report suggests that the knowledge revolution is having less of an impact in Scotland than it is in most of the UK and that consumers are finding it harder to exploit new technologies. We highlight how the market is working (or not) for consumers, what needs to be done to make it work better, and what structures need to be in place to ensure that the consumer voice in Scotland is heard.

In relation to the implications of the communications market for consumers in Scotland, there are key issues surrounding the economic and social environments, and the realities of cross-border regulation and its inter-action with the devolved political environment. These issues must be addressed if Scotland's consumers are not to lose out in the information society.

COMMUNICATIONS REGULATION IN SCOTLAND

Schedule 5 of the Scotland Act lists the following as 'reserved' to the UK Government: telecommunications and wireless telegraphy, including Internet services, electronic encryption and the Post Office and postal services; broadcasting as defined by the subject matter of the Broadcasting Act 1990 and the Broadcasting Act 1996 and the BBC. Wider, but related, issues which are also reserved include: the regulation of anti-competitive practices and agreements; abuse of dominant position; monopolies and mergers; and consumer protection.
While the legislation is very clear about the demarcation of responsibilities, the reality of devolution shows that the issue of communications cuts across a range of priority areas for the Scottish Executive and Parliament. The publication of the government’s Communications White Paper - A New Future for Communications - has revealed the significance of these overlapping responsibilities to Scots as consumers and citizens.

The Communications White Paper is not only important because it will shape communications in the UK for the foreseeable future. In the Scottish context it is also the first major government policy initiative on communications since devolution. As such, it tackles a vital policy area that is reserved, yet cuts across key priority areas for the Scottish administration - on education, economic development, area regeneration and social inclusion. A legitimate question for Scottish consumers is whether the priorities and objectives of the White Paper are right for Scotland.

**TELEPHONY**

'Ve will continue to ensure that those telephone services that are used by the majority, and are essential to full economic and social inclusion, are made available to everyone on reasonable request at an affordable price.'

In Scotland, the telephony market is less well-developed than it is in most other areas of the UK. BT continues to dominate the market, large tracts of the country remain without cable, and mobile penetration and coverage are lower than in most parts of the UK. Many people do not have access to a phone at all and there is lower consumer awareness of the alternatives which do exist.
These problems with access to the most basic telecommunications technologies are a worrying baseline from which to launch the next wave of the information society. If Broadband Scotland is going to work for consumers, the essentials must be in place first. This cannot wait until the establishment of Ofcom but is a situation which the regulator, Oftel, the UK government and the Scottish administration must address now and in readiness for the new convergent regulatory framework.

Recommendations

To Oftel

1. Oftel should take action now to develop the telephony market in Scotland so that the commitment in the Communications White Paper to ensure universal access to affordable services for consumers in Scotland is met. Specifically, this should include:

1A. Ensuring that forthcoming and future reviews of price controls and the universal service obligation include specific consumer impact assessments in relation to the market in Scotland.

1B. Carrying out an effective public awareness programme to highlight to consumers in Scotland the choices which exist in the marketplace.
In addition, we support the recommendations of the National Consumer Council that Oftel should:

2. Apply pressure on telephone companies to introduce easy-to-use, flexible prepayment schemes which consumers on low incomes can afford.

3. Ensure that there is a choice of payment methods to help people manage their bills.

4. Undertake research with consumers in Scotland to build a profile of people who are disconnected.

5. Underpin operators’ codes of practice with formal obligations to ensure they are ultimately enforceable, including making it clear that failure to meet targets will lead to mandatory licence amendments and possible use of sanctions.

To the DTI and DCMS

6. Ofcom’s powers should be strengthened to require the operators to disclose price information in a standardised comparative format.
The lack of adequate comparative information on tariffs has been one of the key barriers to switching suppliers and empowering consumers to make choices which are in their own best interests. Oftel has no power to make companies disclose such information and the current system is voluntary, incomplete and therefore inadequate.

**To the Scottish Executive, the DTI/DCMS, and Oftel**

7. The Scottish Executive, the DTI/DCMS and Oftel should work together, and be seen to be working together to make the Scottish market work for all consumers.

The regulatory responsibilities at UK level overlap with the profound social, economic and environmental issues which are devolved to the Scottish Executive. Therefore, a co-ordinated approach to resolving the problems in the market is essential. It will be important that Oftel, which has no office in Scotland, develops a stronger presence in Scotland.

**INTERNET ACCESS**

‘In future, the delivery of public services direct to the citizen in his or her home must be central to public policy in this area. We see insufficient signs of such centrality in the Communications White Paper.’

If the ‘digital divide’ exists anywhere in the UK, it exists in Scotland. Fewer consumers have home access to the Internet north of the border than anywhere else in the country. Oftel figures from July 2001 show that 27% of Scottish Homes have access to the Internet compared with overall UK figures of 37%. The growth rate too is slower, rising 3% in the previous six months compared to 5% across the UK.'
This is compounded by the marked divisions in access to the Internet among different social groups in Scotland. Scottish Executive figures from February 2000 that one in five 'high-income' families in Scotland had access to the Internet. The equivalent figure for 'families in council flats' was fewer than one in 25.8

We welcome the holistic approach being taken by the Scottish Executive to bridge the gap and agree that buying a PC for every home in Scotland is not only an impossible financial aim but a counter-productive one. However, bearing this in mind, we still believe that the Executive's strategy is incomplete in that it fails to provide a consistent and clear definition of what it means by universal access. We believe that universal access must mean access in the home. If the Executive nominally achieves access for all in community centres is it going to assume that it has reached its goal? In the age of 21st Century Government and electronic delivery of essential public services, public access to the web, while welcome, will not ensure effective access to these services. If you can't access your doctor's surgery from the house, and in confidence, what is the point of going to a public terminal instead of the surgery itself?

We would also like to see the Scottish Executive's strategy for digital inclusion publish meaningful targets and performance indicators which are placed within the context of eEurope and the Communications White Paper.
Recommendations

To the Scottish Executive

8. The Scottish Executive should redefine 'universal access' to the Internet as access in the home.

9. The Scottish Executive's strategy for digital inclusion needs to be enhanced by the identification and publication of meaningful targets, placed within the context of eEurope and the Communications White Paper, and with details on how they will be achieved and measured. The benchmarking and monitoring techniques being developed at EU level should be utilised. Initial targets should be to have a growth rate in access equal to that of England but the ultimate aim should be to ensure universal access in the home.

We agree with the House of Commons Select Committee\(^9\) that a focused approach to the delivery of public services direct to the citizen in his or her home must be an essential feature of public policy. This is in the spirit of the eEurope vision that every citizen, home, school, business and administration should be online. This strategy must also aim to include effective participation of people with disabilities in line with the eParticipation initiative.
10. The promotion of Internet access through digital television should be a key part of the Scottish Executive's strategy.

While uptake of digital television has been relatively slow until now, the ongoing expansion of services and technology, combined with analogue switch-off, presents a highly accessible way of achieving digital inclusion. We cannot agree more with the House of Commons Select Committee that digital television is “an easy and affordable gateway to the Internet”.

11. Formulation and evaluation of grass-roots and community initiatives to promote digital inclusion must have consumer input from an early stage.

There has been a top-down approach to tackling digital inclusion. Communities must be involved in identifying what is needed at local level and in evaluating the outcomes. The new emphasis on community involvement in Connecting Scotland’s People is very welcome. However, we note that communities will have to submit bids containing a coherent strategy and development plan. This is a tall order for community groups with limited resources and we believe that this initiative must be accompanied by a mechanism to assist communities to formulate bids which will have a reasonable chance of success. Evaluation of the pilots must be followed by a commitment to rolling out the initiative.
To Oftel and the DTI/DCMS

12. In preparation of the expected relaxation of the current European requirements for minimum data speeds in 2003, Oftel should ensure that it has a complete picture of data speed being achieved by users across the whole of Scotland and, in particular, rural and remote areas. The regulator should then set minimum data speeds which reflect typical usage across the board to ensure that consumers in Scotland receive an adequate service.

Access to the Internet at an acceptable speed prior to the roll-out of broadband should be a high priority for Oftel and Ofcom. Any gaps in information need to be filled. This needs to be followed up with a minimum threshold for data speed which is enforced and reviewed regularly.

BROADBAND ACCESS IN SCOTLAND

Effective and immediate roll-out of broadband across all areas of Scotland is of crucial social and economic importance, and in particular for rural and remote areas. There, the infrastructure is wholly inadequate, broadband provision is patchy to say the least and remote users are disadvantaged. This is compounded by the speed of change in the technology, the dominance of the incumbent, BT, and the uncertainties about which company can provide which service and at what cost. The prospect of digital exclusion raised by inadequate access to PCs and the Internet for many consumers will become even more of a reality if the infrastructure is not there to deliver the innovative services from which others will benefit and come to see as the norm.
Yet consumers are being left at the mercy of complex market forces and are in the middle of the debate between government and the industry about who kick-starts the roll-out and how. The debate is being dominated by a reluctance of the industry to invest and the view that infrastructure upgrades must be demand led. Government is being forced to balance the risks of waiting for the market to gain its own impetus and for the industry to make the investment when it thinks the gain is worth it, against substituting that investment from the start so that rural and remote areas don't lose out.

The Scottish Executive has decided to use aggregated public procurement to drive demand for broadband services and to see broadband rolled out more quickly. This will be focused on key areas where demand creation is needed most. There will be additional funding to help meet the costs of upgraded requirements in these areas. However, while targeted pump-priming is not ruled out, it is not included as a key part of the Scottish Executive's strategy for broadband.\textsuperscript{10} We think a strategic, targeted approach to government investment in areas of need should have been included and that regulatory policy support for rural areas, as has happened in the U S, is something which the Scottish Executive should raise at European Union level.

We welcome the development of the Executive's strategy and are supportive of the pro-active measures being proposed to stimulate demand and the parameters within which any government intervention will occur. The first parameter sets out the need to encourage competition as far as possible. This will be a key factor in the successful implementation of the strategy and procurement processes must ensure that this happens and that the advantages which incumbent operators possess do not detract from the onset of a competitive marketplace.
However, while we welcome Connecting Scotland's aim to “make affordable and pervasive broadband connections available to citizens and businesses across Scotland”, we are concerned that this is being addressed in isolation from and without regard to the overall context of the communications market in Scotland as it affects consumers and as set out in this report. Broadband provision will mean nothing to consumers who can't take advantage of a competitive market in basic telephony, who can't, or don't know how to access the Internet at home, and who can't access essential public services without going to a public terminal. Effective development of the new economy must have a wider focus than the needs of business. Equally, it must aim to ensure effective and universal participation of consumers in the marketplace.

From the consumer perspective, an attractive option would be the extension of the universal service obligation. However, we are not convinced that this is the answer at such an early stage of the development of the market. While the services to be delivered via broadband will become essential, we are not yet at that stage and the service is not yet used by anywhere near the majority of the population. Extending the USO is constrained by European legislation which does not allow higher levels of service to be funded by industry levy. Therefore, for the time being, government would have to meet the cost of the extension through taxation. This would provide no incentive for companies to make the up-front investment which is needed.

However, this does not detract from the fact that universal access will be of fundamental importance to the economic and social fabric of Scotland. In principle, USO must be extended to include broadband at an optimal time for consumers. This must be kept under continual review.
Recommendations

To the Scottish Executive

13. We welcome the publication of Connecting Scotland, the Scottish Executive's strategy for broadband in Scotland, and agree with the principles it has adopted to accelerate the roll-out of broadband. However, there needs to be more information on how procurement will ensure that competition develops and that the development of the market is not hampered by incumbent monopoly suppliers. The Scottish Executive should identify appropriate outcome measures, progress against which should be published annually. However, this must be supported by flexible publicly-funded pump-priming which is targeted towards areas identified as having the greatest need, together with appropriate regulatory invention to support development in these areas. Regulatory policy support for rural areas, similar to that in the US, is something which the Scottish Executive should raise at European level.

To Oftel, Ofcom and the DTI

14. Oftel's commitment to keep the definition of the universal service obligation under review should pay particular attention to the specific conditions of the market in Scotland. Meanwhile the government should work with the EU to ensure that the future definition of universal service is expanded to include broadband. Oftel's proposed market research to monitor consumer
access, preferences and demand in relation to broadband should include separate Scottish figures.

To Oftel

15. Oftel should take all possible steps to ensure that local exchanges are unbundled and opened up to competitors as soon as possible.

The continued dominance of BT in Scotland is unacceptable. Oftel must work with BT and the rest of the industry to find adequate solutions so that unbundling can develop.

To the DTI/DCMS and Ofcom

16. Ofcom should be given a statutory duty to have due consideration to the needs of people living in rural areas and to low-income consumers.

BROADCASTING

In our view, there have been few signs up until now that broadcasting has responded to the realities of political devolution. The Communications White Paper gives us cause for concern in relation to some of the proposals for broadcasting. However, the prospect of legislative change also presents real opportunities to get it right for Scotland.

Part of the role of public service broadcasters is to help inform the democratic debate. Executive power over a wide range of issues affecting consumers now resides in Edinburgh and this should have led
to a radical change in the way public service broadcasting is organised in Scotland. Simply put, the Scottish Parliament and policy issues that are decided in Scotland do not have a strong enough profile on programmes broadcast north of the border. We would also expect Scottish news programmes to provide a Scottish perspective on UK, European and international issues.

The Scottish Six debate is in the past. Our concern here is not about what decision was taken by the BBC but how that decision was arrived at by the BBC Governors and against the advice of the Broadcasting Council for Scotland, BBC staff in Scotland and the wider community. In our view this raises particular issues about the BBC’s accountability in Scotland which will not be helped by excluding the BBC from independent regulatory control by Ofcom.

Eight years after we first highlighted the low commitment to investment in programme-making in Scotland by the BBC, we welcome the recent investment in this area and look forward to seeing evidence of continuing investment which reflects adequately the personal investment made by consumers in Scotland through the licence fee. We welcome the fact that a commitment to improving services in the light of devolution remains a key objective of the BBC. However, we note that the additional investment in Scotland, although significant, (£26m over the last three years and another £40m in the coming year) must be set within the overall UK context of plans to invest an additional £265m in services over the next two years.\textsuperscript{11}

The White Paper seeks to defend regionalism but gives the green light to greater consolidation in the commercial sector. Consolidation and any further relaxation of rules on cross-media ownership will have particular implications for the market in Scotland. Any future assessment
of the merits of consolidation at UK level may fail to take account of the political and cultural diversity of Scotland.

There are key issues for Scotland in relation to digital in rural and remote areas and analogue switch-off. Ninety-five per cent of the UK population with access could, in theory, pass the Government’s threshold for switch-off but leave large tracts of rural Scotland with no television. This is another area where complex technology is moving ahead quickly - we have real concerns about affordability and about standards, information and redress.

Recommendations

To the BBC

17. **The BBC’s level of investment in programme-making in Scotland and the proportion of programming on the networks which is made in Scotland should reflect, and be able to demonstrate, the investment being made by consumers in Scotland through the licence fee.**

We welcome the current rise in investment but consumers in Scotland will need to be re-assured that it will be sustained in the longer term through a strategy which aims to ensure that investment levels are based on Scottish population levels and income from the licence fees paid by Scottish consumers.

18. **The BBC should review its governance in Scotland.**

We believe that there are lessons to be learnt from the BBC’s handling of the Scottish Six question and the degree of its accountability to stakeholders in Scotland.
To Ofcom, the BBC and Commercial Television Companies and the DTI/DCMS

19. There should be a statutory requirement for Scotland to have a devolved peak-time national news programme to reflect the fact that executive power over a wide range of issues affecting consumers now resides in Edinburgh and also to provide a Scottish perspective on UK, European and international issues.

To Ofcom and DTI/DCMS

20. Consideration of consolidation in the commercial sector and any future relaxation of cross-media ownership rules should include an impact assessment of the effects on the market in Scotland and in particular the effects on regional identity, plurality and choice.

21. The proposals in the White Paper to protect regional identities should be strengthened. As an absolute minimum, the government should adopt the safeguards for regional programming proposed by the ITC, including a requirement that proposals for mergers or takeovers should include targets for maintaining regional plurality which would form part of any licence agreement.

22. If Ofcom is to fulfil its commitments to regional broadcasting in Scotland, then it will be essential for it to have an office in Scotland.
To the government and the Scottish Executive

23. The future regulation and governance of the BBC should be subject to a review by Parliament.

We are aware that the BBC was subject to a review by the House of Commons Select Committee on Culture, Media and Sport in 1999. However, we do not see this as justification for excluding the BBC from the new regulatory regime. As we have said above, we have concerns about how accountable the BBC Board of Governors are to Scottish stakeholders. There is a conflict between the board having responsibilities to put out programmes and to regulate what they themselves do.

We agree with the House of Commons Select Committee:

“By failing to provide for an integrated approach by the new regulator to all broadcasters including the BBC, the government has left a large amount of unfinished business.”

24. The Scottish Executive, in conjunction with the DTI, should carry out a major public education campaign on digital television in Scotland, accompanied by measures to promote industry standards and improve information on products.
In the run-up to analogue switch-off and in an attempt to increase take-up, there needs to be a visible campaign organised for the Scottish market and aimed at the Scottish audience, accompanied by the development of high standards and good practice in customer service in the industry.

**HEARING THE CONSUMER VOICE**

This report shows that there is a clear Scottish communications agenda. Many of the problems we have highlighted are distinctive to Scotland and require solutions debated, discussed and formulated in Scotland. For example, the best way to improve the rate of Internet access in deprived areas is a matter for Scottish policy. Broadband roll-out in rural areas in Scotland is a crucial issue that cuts across a range of responsibilities that reside in Edinburgh. It is also time that public service broadcasting properly recognised the realities of political and cultural borders. The proposals for public service broadcasting proposed in the White Paper may not be the best option for Scots as consumers or citizens.

How then does the White Paper propose to make sure that the voices of those in different parts of the UK will be heard when these issues are debated in the offices of Ofcom? How too can we ensure that the consumer voice is articulated in policy discussions within Scotland?

A New Future for Communications proposes to establish a new consumer panel to advise the regulator. 'It will be able to research consumer views and concerns on service delivery, represent these concerns to Ofcom and other relevant bodies, and publish its findings and conclusions.' The panel is to be semi-autonomous from Ofcom and independently appointed. It will be required to take due account in its work of the views of consumers with special needs, including those on low incomes or with disabilities.
There is, in fact, no mention of consumer representation from the UK nations and no recognition that there are issues and problems distinctive to different parts of the UK - different consumer agendas.

The White Paper restricts itself to requiring Ofcom to establish 'good links' with relevant policy committees and the executives of the devolved assemblies. It may be that the government considers this safeguard enough to make sure issues relating to the UK nations and regions are heard.

However, we do not believe that this short reference is good enough and want to see regulatory and consumer representative structures for Scotland which have a statutory basis, are built into the system from the start, and which are not subject to the vagaries of political change.

The inadequacy of the White Paper in addressing the implications of devolution has already begun to surface. The existing regulators commissioned Tower Perrins to produce their detailed vision for the structure of Ofcom. This report has now been published and submitted to government as the way forward. It contains no reference to devolution and no structures for dealing with it in practice.

Furthermore, the abolition of the Scottish Advisory Committee on Telecommunications, the ITC and the Broadcasting Standards Commission will dismantle the existing statutory basis for the representation of consumers in Scotland in communications. The White Paper admits that 'industry lobbies the regulator hard in pursuit of its interests. That is to be expected. But it should be balanced by proper and full representation of consumers' concerns'. From the perspective of the Scottish consumer, this is lacking in the White Paper proposals.
In the interests of consumers in Scotland it will be essential for both Ofcom and the Consumer Panel to have a physical presence in Scotland. It will also be essential for both bodies to have clear and effective policy relationships with the Scottish Executive, the Scottish Parliament, and with the range of stakeholders within Scotland. The Consumer Panel in particular has to be able to articulate the policy issues which are important to consumers in Scotland.

We have concerns also about the lack of consumer input into initiatives on digital inclusion and the knowledge economy. We have already stressed the importance of having effective involvement of communities in local initiatives. However, this is not enough. Digital Scotland and other strategic initiatives have focused on businesses and public sector organisations as the “customer” and have failed to recognise the central role played by consumers in creating demand and driving forward a competitive economy.

Recommendations

To the DTI/DCMS and Ofcom

25. There should be a statutory requirement for the Consumer Panel to establish a Committee for Scotland and to maintain an office in Scotland. Similar requirements should be placed on Ofcom.

Given that there is a clear Scottish communications agenda which cuts across a range of devolved policy areas, it is crucial that the Scottish consumer voice should be heard in the new regulatory structure and on a statutory basis. It is therefore of vital importance that consumer representative and regulatory arrangements incorporate a strong policy
remit for Scotland within the UK-wide structure. Moreover, the Scotland Act recognises that public bodies which are accountable to the UK Parliament will continue to be significant in the economic and social life of Scotland. It is therefore essential for there to be mechanisms for policy-making in Scotland which are sensitive to the needs of stakeholders in Scotland, which have a clear relationship and direct liaison with the Scottish Parliament and the Scottish Executive and which subsequently ensure that the issues which are relevant to consumers in Scotland are addressed at the UK level.

**To the Scottish Executive**

26. The importance of the consumer perspective should be recognised at strategic level through effective consumer involvement in the formulation and development of policies and strategies for the knowledge economy.

At strategic level, there has been too much emphasis on the views and needs of business and commerce and inadequate recognition of the pivotal role of consumer demand in competitive markets and economic development.

**To the Scottish Executive and the DTI/DCMS**

27 The Scottish Executive and the UK Government should develop and publish an integrated strategy for communications in Scotland, taking into account all segments of the market and ensuring that all current policy initiatives are “joined-up.” This strategy should include both economic issues in relation to service delivery and content issues in relation to public service broadcasting.
We have already noted that the market in telephony is less well-developed in Scotland and that there is still a long way to go before basic levels of access to the Internet can be guaranteed for everyone, particularly disadvantaged consumers. Yet at the same time we are seeing significant investment in the electronic delivery of essential public services and in new broadband technology. The market will only work for consumers if there is an integrated approach to service provision and delivery, particularly in view of the fact that regulation will be carried out at UK level.

In addition to market issues, this report also shows that there is a clear Scottish agenda in public service broadcasting in the light of cultural and political diversity and that, from the consumer perspective, this is not being addressed adequately in either current practice or future UK policy.
Chapter 1  Introduction

'The explosion of information has fuelled a democratic revolution of knowledge and active citizenship. If information is power, power can now be within the grasp of everyone. No government can now rely on the ignorance of its population to sustain it. We are richer as citizens thanks to the expansion of modern media. This government wants to encourage this and give everyone access to all these riches as quickly as possible.'

As in the rest of the UK, and across the Western world, the communications market in Scotland is changing at breakneck speed. Only twenty years ago there were three television channels available. Today, some people can access more than 250. Seventy one per cent of Scottish homes have at least one mobile phone. More than thirty per cent have access to a personal computer and twenty seven per cent of homes can access the Internet. Many consumers also have access to high-speed telephone lines which can be used to access a myriad of services. Others can access broadband technology via direct connections to their homes. Cable operators compete with BT in urban areas to bring exceptionally high-speed fibre cable lines, while BT itself offers many of its customers several broadband options.

Just as significantly, communications technologies are 'converging'. This means that people will soon be able to use the same devices to access different services. Games consoles can already be used to access the Internet. Personal computers are being used to access radio and television. Mobile phones are evolving into mobile communications consoles. In the near future, consumers will be able to write and send an e-mail, browse for a CD on the Internet and watch the evening news - all on the same monitor without leaving their chair.
These are just some of the changes that have transformed our experience of modern communication and illustrate how critical this market is for practically everyone either directly or indirectly. In Scotland, the market is particularly critical and issues around universal service and access to technology are particularly relevant.

Apart from the central belt, Scotland has a very scattered population of rural communities and large geographical tracts of remote countryside where small communities and individual households exist in isolation. Access to an effective communications market is an economic and social lifeline and a necessity if people are to participate in modern society. The knowledge economy is the key to improving access to education and employment opportunities, the delivery of services and the subsequent injection of life into local economies. Having the infrastructure to make this happen, and at the right time, will be crucial.

The effects of the market are just as critical in all areas in Scotland, even where the infrastructure exists. Scotland has some of the most deprived communities in Europe and higher proportions of unemployed people and low-paid workers than in the rest of the U.K.21 The irony of the information society is that disadvantaged consumers who cannot afford to access the new technology face further marginalisation.

So what practical choices do people in Scotland have in relation to communications? And how can people exercise their choices in order to take full advantage of them?
In the colourful language that has greeted the information revolution, it is perhaps easy to overlook the fact that Internet users and digital television subscribers are still a minority. Scotland's media are dominated by relatively few major news providers and a significant number of people are likely to be excluded from the broadband network for many years to come.

The recent Communications White Paper analysed the UK communications market and set out the government's vision for making that market work in the interests of all stakeholders and in the context of global developments. This report provides a unique view of the different and converging strands of the market in Scotland from the consumer perspective.

Overall, the evidence in this report suggests that the knowledge revolution is having less of an impact in Scotland than it is in most of the UK and that consumers are finding it harder to exploit new technologies. We highlight how the market is working (or not) for consumers, what needs to be done to make it work better, and what structures need to be in place to ensure that the consumer voice in Scotland is heard.

In relation to the implications of the communications market for consumers in Scotland, there are key issues surrounding the economic and social environments, and the realities of cross-border regulation and its interaction with the devolved political environment. These issues must be addressed if Scotland's consumers are not to lose out in the information society.
Chapter 2  Overlapping responsibilities - who regulates communications in Scotland?

Introduction

The current regulatory framework for communications can only be described as labyrinthine with a clutch of regulators all with responsibility for different aspects of the industry. In the light of the fast pace of technological innovation and market development, at a UK and European level, the current regulatory architecture is being dismantled to be replaced with a unified system which, it is claimed, will be able to meet the challenges of convergence.

This chapter outlines the current structure of regulation in the UK and the three main sources of policy that can impact on communications regulation in Scotland - the UK Government, the European Commission and the Scottish Executive. It is impossible to examine communications policy in the UK and Scottish context without reference to the government's White Paper - A New Future for Communications. This sets out the government's vision for communications throughout the UK and Scotland. The White Paper is not only important because it will shape communications in the UK for the foreseeable future. In the Scottish context it is also the first major government policy initiative on communications since devolution. As such, it tackles a vital policy area that is reserved, yet cuts across key priority areas for the Scottish administration - on education, economic development, area regeneration and social inclusion. A legitimate question for Scottish consumers is whether the priorities and objectives of the White Paper are right for Scotland.
The UK Regulatory Structure

Schedule 5 of the Scotland Act lists the following as 'reserved': telecommunications and wireless telegraphy, including Internet services, electronic encryption and the Post Office and postal services, broadcasting as defined by the subject matter of the Broadcasting Act 1990 and the Broadcasting Act 1996 and the BBC. Wider, but related issues which are also reserved include: the regulation of anti-competitive practices and agreements; abuse of dominant position; monopolies and mergers; and consumer protection.23

The main regulatory structures at UK level are:

Oftel

Oftel is the regulator for the UK telecommunications industry. Under the 1984 Telecommunications Act, the Director General of Oftel's duties include:

- promoting the interests of consumers;
- maintaining and promoting effective competition;
- ensuring that telecommunications services are provided in the UK to meet all reasonable demands for them (this includes emergency services, public call-boxes, directory information services and services in rural areas).24

The Act requires Oftel to establish consumer advisory committees in each country of the UK and Oftel has a statutory obligation to consult with these committees. There are therefore six ACTs - four deal with issues in each of the four countries in the UK and a further two look at telecommunications from the position of elderly and disabled people,
and smaller businesses (also statutory). SACOT has nine committee members and its primary function is to promote the interests of consumers in Scotland by giving advice to Ofcom and direct representations to telcos.25

Ofcom has consulted on proposals to establish a Telecommunications Ombudsman26 which, it is suggested, would be mandatory for providers of fixed telephony and, in line with the regulatory proposals in the Communications White Paper, with scope for providers of other services, for example mobile operators or Internet service providers to join on a voluntary basis.

Broadcasting Standards Commission

The BSC has a statutory remit with regard to standards and fairness in broadcasting. It is the only UK communications regulator to cover all TV and radio, both terrestrial and satellite and including text, cable and digital services. Under the Broadcasting Act 1996 it has three main tasks:

- to produce codes of conduct relating to standards and fairness;
- to consider and adjudicate in complaints; and
- to monitor, research and report on standards and fairness in broadcasting.

The Commission monitors the standards of UK and trans-frontier broadcasting and, through a programme of independent research, reports on the attitudes of the public towards both standards and fairness issues. It also reports directly to the Secretary of State for Culture, Media and Sport. The Commission is held accountable by Parliament and it has a statutory Member for Scotland.
Independent Television Commission

The ITC regulates commercial television in the UK independently of government. The Broadcasting Acts of 1990 and 1996 defined its main powers which include: ensuring fair and effective competition; operating and enforcing a licensing regime for broadcasters; and ensuring that a wide range of high-quality commercial television services are available throughout the UK.

The ITC consults with four specialist advisory panels covering religion, schools, advertising and medicine. It also has a network of twelve Viewer Consultative Councils, representing a typical cross-section of viewers, one of which is based in Scotland. The ITC is under no statutory obligation to consult with the VCCs.

The ITC has a regional office in Scotland and is currently refocusing its presence in the regions to ‘concentrate resources, and provide improved interactivity with the public at national, regional and community level.’ The Commission has a statutory Member for Scotland.

Radio Authority

In a similar way to ITC’s regulation of commercial television the Radio Authority licenses and regulates all commercial radio services. This includes national, local, cable, national FM sub-carrier, satellite and restricted services. The Authority is also currently responsible for licensing digital radio services, both national and local, over the next few years.
Radiocommunications Agency

The RA was established as an Executive Agency of the DTI in 1990 and is responsible for managing most non-military radio spectra in the UK and for representing the UK in international meetings on radio. This is how it describes its role:

"The radio spectrum supports an enormous range of services and applications and is in increasing demand by many kinds of users. The spectrum is a finite resource and its effective management by the Agency is crucial to UK success in the information age."

The BBC

The BBC is currently self-regulating and falls outwith the terms of reference of all the other regulatory bodies other than the Broadcasting Standards Commission which may consider complaints against the BBC.

Europe

The European Commission is taking action on a number of fronts to promote the information society. Firstly, it has detailed plans to update telecommunications liberalisation. Secondly, it is setting a clear legal framework for e-commerce (for example, on privacy, authentication and security). Thirdly, it is supporting research and development. And lastly, it has adopted an overarching initiative called eEurope aimed at keeping European policy in step with the fast-moving technologies and markets.
In terms of telecommunications regulation, in many ways the UK is well ahead of European policy in that the UK’s telecommunications industry has liberalised further than that demanded by current EU regulations. That said, the Commission has proposed new legislation that it hopes will take forward the liberalisation that started in the early 1990s. The aim is to introduce consistency in regulation in reflection of technological convergence, increasing competition and the onset of the single market. The Communications White Paper has been drafted to take account of these proposals and it outlines the Commission’s plans as follows:

• a common regulatory framework for electronic communications networks and services which will define the powers and duties of national regulatory authorities. This framework will also: promote the uniform application of the rules by requiring consultation with the Commission on key decisions; establish the threshold and mechanism for regulatory intervention; facilitate market-led technical standardisation and reform the institutional structures that bring the European Commission, regulators and Member States together;
• the authorisation of networks and service to replace the system of individual licences;
• access to, and interconnection of, electronic communications networks and associated facilities;
• ‘universal service and users’ rights relating to electronic communications networks and services’. The scope and financing of universal service will be defined and it will “provide for future revision, permit retail price regulation, address consumer benefit concerns (eg quality of service, interoperability and must carry) and other mandatory services (eg leased lines) and require public consultation on regulatory decisions”. In doing this it will presumably update current universal service legislation;
• the processing of personal data and the protection of privacy in the electronic communications sector. This will guarantee confidentiality of communications, enable traffic and location data to be used for value-added services with user consent and address unsolicited electronic communications of all types;
• competition in markets for electronic communications services; and
• a regulatory framework for radio spectrum policy.29

Content regulation is being updated through a different, but parallel initiative, established by the Television without Frontiers Directive (TVWF) - proposals for this are expected from the Commission in 2002.

**eEurope**

The European Commission launched eEurope in 1999 and it is the driving force behind the Commission’s strategy to accelerate the uptake of digital technologies across Europe and ensure that all Europeans have the necessary skills to use them. ‘It plays a central role in the agenda of economic and social renewal for Europe’ the Commission says and ‘the eEurope initiative is a key element in the strategy of the new Commission to modernise the European economy’.30 Through eEurope, the Commission stresses that Internet uptake in Europe is comparatively low compared to the US and some Nordic and Asian countries. The initiative is therefore aimed at helping Europe to build on the benefits of the e-economy. It also recognises that the success of the new economy hinges on social inclusion and consumer empowerment. eEurope has three aims:

• To bring every citizen, home, school, business and administration online;
To create a digitally literate and entrepreneurial Europe;
To ensure a socially-inclusive information society.\textsuperscript{31}

Priorities for eEurope include:

- European Youth Into the Digital Age - a recognition that, if all citizens are to be able to play an active role in the information society then achieving this starts at school. 'eEurope aims to further accelerate the process of putting schools online. Digital literacy will be turned into a basic competence for all young Europeans.'\textsuperscript{32} The eEurope target for this commitment is that all pupils will be 'digitally literate' by the time they leave school.
- Cheaper Internet Access - the Commission aims to ensure cheaper Internet access through the promotion of competition on the local loop, the part of the telecommunications infrastructure between the local exchange and the consumer's house.
- Accelerating e-commerce.
- Smart cards for secure electronic access.
- eParticipation for disabled people.
- Government online.\textsuperscript{33}

Perhaps the most important milestone for the eEurope initiative was the adoption of the eEurope 2002 Action Plan by the Feira European Council in June 2000. This detailed the policy actions required to meet the above objectives by 2002. In December 2000, a progress report on the action plan claimed that the policy impact of eEurope was now being taken on board at member state level. However, it also stated that this was not being followed through with legislation quickly enough. The Commission itself has launched a range of key projects. These include the adoption of common standards and applications, a eu150 million programme on eContent to stimulate the use of European digital
content and promote linguistic diversity; new projects aimed at strengthening the new economy in education; upgraded research networks; availability of regional funds; and launch of the EU top level domain name.

More importantly, the eEurope project has been establishing a series of new benchmarks to enable member states to compare their performance, identify best practice, provide insight into the factors of importance for diffusion of technology and enable remedial action to be taken.  

**Universal Service**

The current EU regulatory framework ‘requires national regulatory authorities to place obligations on designated network operators to ensure that a defined minimum set of services of specified quality are available to all, independently of their geographical location, at an affordable price’.  

However, new proposals on universal service include mechanisms for a review of the scope of universal service obligations and the possibility of broadening the scope to include access to data communications such as Internet.

Responsibilities for ensuring universal access are delegated to the member states and the relevant regulator which, within the UK, is currently Oftel.  This development of EU rules on the universal service coincided with Oftel’s review of the Universal Service Obligation (USO), described more fully in relation to broadband networks in Chapter 5.  Oftel states that ‘the Commission’s aims are very much in line with Oftel’s strategy’.
The Scottish Executive

While the legislation in relation to communications is very clear about the demarcation of responsibilities, the reality of devolution shows that the issue cuts across a range of priority areas for the Scottish Executive and Parliament. The Scottish Executive recently gave evidence to the Enterprise and Lifelong Learning inquiry into the new economy on the broadband infrastructure. It stated:

‘Telecommunications is a reserved area in order to preserve a level playing field for an important industry across the UK, and the Executive’s interest lies in the devolved areas of economic and social development including the provision of public services. The Executive is therefore working closely with the UK Government on their Broadband Britain agenda to ensure that action in reserved and devolved areas is properly co-ordinated.’

The Scottish Executive’s Digital Scotland Task Force clearly regards the issue to be central to the work of the devolved administration:

- Business - especially SMEs - can gain competitive advantage from adopting e-commerce and will lose out if they do not do so; work is under way to encourage uptake;
- Education and training can be delivered in new ways, opening up fresh opportunities for learners and creating challenges for schools, colleges and universities. E-education and training also help the workforce of tomorrow to gain digital age skills;
- Public services can be more convenient and citizen-centred, and there are opportunities for greater efficiency too;
- Digital technology can promote social inclusion and help foster communities.
The Scottish Executive has recently published two strategy documents on Broadband\textsuperscript{39} and Digital Inclusion.\textsuperscript{40} It is clear therefore that the Executive sees communications as an important element in the success of its own policy objectives for devolved areas of responsibility. The Scottish Executive, however, has to operate within the legislative framework put in place by the European Union and Westminster.

Developments in Gaelic broadcasting highlight the overlapping responsibilities between the UK and Scottish administrations. In 1999 the then Scottish Office established the Gaelic Broadcasting Task Force and, after several months of deliberations, it published its conclusions and recommendations. This task force argued that its recommendations provide a practical means of meeting the requirements of Section 31 of the European Parliament and Council Directive 97/36/EC of June 1997 with regard to the need to protect lesser-used languages of the European Union. It also said that its conclusions ‘are in line with the government’s social inclusion policies, enabling peripheral communities and an often marginalised linguistic minority to participate actively in the information society and to be at the forefront of the transition from analogue to digital technology to the benefit of language, culture and the economy’.\textsuperscript{41}

So where does this leave the future of Gaelic broadcasting and the Gaelic broadcasting task force? Ironically, given the devolution settlement, the future of Gaelic broadcasting will be decided in London - not Edinburgh.

**The Communications White Paper**

The Communications White Paper\textsuperscript{42} heralds a radical reform of the current UK regulatory system in communications which aims to create
a dynamic market while at the same time ensuring universal access, maintaining diversity and plurality, securing quality, and protecting the interests of consumers. The key proposals are set out below - making these work for Scotland's consumers will be a key challenge for the Scottish Executive and Whitehall. The following analysis of how the key market sectors in Scotland are working on behalf of consumers shows what needs to be done.

**A New Future for Communications - The Main Proposals**

- A single regulator, Ofcom, will replace the five key communications regulators outlined above;
- Ofcom’s principal regulatory objectives should be:
  - protecting the interests of consumers in terms of choice, price, quality of service and value for money, in particular through promoting open and competitive markets;
  - maintaining high quality of content, a wide range of programming, and plurality of public expression;
  - protecting the interests of citizens by maintaining accepted community standards in content, balancing freedom of speech against the need to protect against potentially offensive or harmful material, and ensuring appropriate protection of fairness and privacy.
- Ofcom will have concurrent powers with the OFT to exercise Competition Act powers for the communications sector;
- Public service TV channels will remain available to everyone, as now, free at the point of consumption, both before and after the switch-over from analogue to digital;
- Telephone services that are used by the majority, and are essential to full social and economic inclusion, are made available to everybody on reasonable request, at an affordable price;
- The government aims to achieve universal access to the internet by 2005;
- The availability of higher bandwidth will be promoted. The need for public investment in higher-speed networks will be investigated and the case for requiring higher bandwidth services to be made available universally will be kept under review;
- Public service broadcasters will continue to have an obligation to use independent productions;
- The regional dimension to public service broadcasting will be retained and strengthened;
- The fifteen per cent limit on share of TV audience is to be scrapped;
- The government has invited comments on existing cross-media ownership rules;
- The nominated news provider system for ITV is to be retained;
The system of public service broadcasting regulation is to be replaced with a three-tier structure. The basic tier will support standards across all broadcasters with another two tiers for public service broadcasters.

- BBC’s and S4C’s remits will remain but Channel Four’s remit will be reviewed;
- ITV will remain the main commercial provider of public service broadcasting but with less prescriptive detailed regulation;
- Ofcom will be responsible for maintaining content standards and will develop codes underpinned by statute;
- To inform its work, Ofcom will ‘be able to commission a programme of independent research; it will establish bodies to reflect the public interest in the content of communications services; and it will consider and adjudicate on complaints on content, if unresolved by the service provider in a timely manner;
- Accuracy and impartiality will remain at the heart of licensed broadcasting services;
- The industry is ‘challenged’ to come forward, even before legislation, with an effective code or codes of practice for service delivery, and with effective means of redress when service standards are not met;
- A new consumer panel will be established to advise the regulator. It will be able to research consumer views and concerns on service delivery, represent these concerns to Ofcom and other relevant bodies, and publish its findings and conclusions;
- Ofcom will be required to give due weight to the need for improved access to communications services for people with disabilities;
- Ofcom should also give proper weight to the special needs of people with disabilities and of the elderly, of those on low income and of persons living in rural areas;
- Ofcom will be expected to develop good links with the relevant policy committees and executives of the devolved assemblies, and with representatives of the English regions.
THE MARKET

Fixed Line Telephony

As in the rest of the UK, there is a wide range of suppliers in the fixed telecoms market. As well as BT, many households in urban areas can opt for a cable telecoms provider which normally offers a television service and a broadband Internet access package of services. Cable companies operating in Scotland include NTL and Telewest and they operate in strictly-defined franchise areas within which they can offer cable TV, telephony and other services such as broadband connectivity. However, the geographical clustering of these networks has meant that large tracts of rural and semi-rural Scotland are still without access to cable services and remain particularly reliant on BT as the incumbent service provider.

Competitors to BT can also offer a complete rental and calls service over BT’s lines. A small but significant number of higher-use fixed line consumers use indirect operators for specific calls.

Like cable operators, Radio Fixed Access (RFA) operators have the potential to compete with BT both in the provision of the connection to the network and calls over it. RFA has the potential to spread basic access competition to smaller towns not served by cable, although technical constraints can limit its practical use in certain areas and terrains. Until recently, the main RFA operator in Scotland was Atlantic Telecom which focused on main urban areas and targeted small and medium-sized businesses and above-average-spending residential customers. However, so far, there have been no RFA success stories. Ionica notoriously predicted it would be able to compete head-on with BT for residential customers across much of the UK but failed in 1998 and Atlantic Telecom is currently in receivership.
However, an increase in the number of players in the market and the associated pace of technological development will not in themselves guarantee an effectively competitive marketplace for consumers. Research carried out by the Scottish Advisory Committee on Telecommunications (SACOT) in 1999 found that, of around a thousand adults throughout Scotland, 83 per cent received their main telephone bill from BT. Among those aged 65 and over, 92 per cent received their largest bill from BT. 43

**Price Control**

Oftel recognised BT's dominant position in the residential market in 2001 when it announced the extension of the retail price controls that have applied to BT's licence since privatisation in 1984.

Even with the use of price controls to protect residential customers, BT has been able to exploit its position as the incumbent operator. Its dominance still distorts the market and prices are higher than they should be if the market were truly competitive. In publishing its decision on the future of the price control, Oftel said that 'BT's returns on calls, assessed on the basis of BT's cost allocation, remained substantially above a reasonable level' and that the 'overall level of profitability exceeded what BT requires to cover its full costs and make a reasonable return'. 44

The price control will mean that the current RPI (4.5 per cent) will be extended to July 2002. It is clear that Oftel considers this to be a crucial period in the development of competition in the telephony market. It says that efforts to remove barriers to effective competition and other structural changes will increase competitive pressure on BT further. It concludes:
'In view of the considerable uncertainty surrounding the impact of competition on BT in the immediate future, Oftel has justified the extension of the price-control regime in order to carry out a further review to assess whether competition is ‘fully effective’. This review started in August 2001.

**Barriers to Competition**

Since the introduction of competition in the residential market Oftel has attempted to remove barriers to effective competition to enable consumers to swap suppliers easily. For example, number portability was introduced along with other measures designed to make switching supplier easier. The introduction of carrier preselection will mean that customers who choose to use other suppliers for specific calls will no longer need to use an access code. BT’s local loop is also being made available to allow other suppliers to offer competing services. In response to consistent pressure from consumer groups Oftel has also introduced a scheme (www.phonebills.org.uk) that enables consumers to compare telephony tariffs. It has long been claimed that the most formidable barrier facing residential consumers is the difficulty in comparing phone company prices. Tariff structures and discount schemes, coupled with different rental packages and minimum charges, make it almost impossible for consumers to make meaningful calculations. Although welcome, the phonebills.org.uk scheme is voluntary and access is restricted to consumers who have access to the Internet.

Competition is meaningless if you have an inert customer base which cannot access new services. Consumers in Scotland are, along with those in Northern Ireland and the north east of England, the least likely to
Overall, 21 per cent of consumers in the UK had switched their entire service from BT. The equivalent figure for Scotland is eighteen per cent. In contrast, twenty-five per cent of those in Wales and the south east have switched their entire service. The UK average for complete or partial switching is 25 per cent while in Scotland the figure is 21 per cent. However, this contrasts with very high levels of switching in some areas. For example, London has an equivalent figure of 29 per cent, the south east thirty per cent and the south west 28 per cent. Only the north east reports a lower figure than Scotland - twenty per cent.

Oftel has identified the main reasons why consumers have failed to take advantage of lower prices offered by BT’s competitors. These four themes are: satisfaction with current supplier; inertia; insufficient savings elsewhere; and, lack of awareness about alternatives. Oftel has not published any figures that indicate why competition appears to be taking hold more slowly in some parts of the UK compared to others. However, it has noted that awareness of indirect operators is lowest in Scotland, Wales and Northern Ireland. If consumers in Scotland have lower levels of awareness about service options more generally, then this may help explain why so few households have switched from BT. Oftel’s findings are supported by the SACOT research which revealed that lack of awareness of alternatives appears to be a problem for a significant minority of those who have not switched and research carried out by SACOT backs this conclusion. Across Scotland, 47 per cent of those surveyed could not name one competitor to BT. In areas with no choice of a local supplier, this figure rose to two thirds. Just under thirty per cent of those in areas where there is local choice could not name a competitor. Overall, SACOT also found that 68 per cent of those aged 65 and over were unaware of competition.
Mobile Telephony

All four mobile networks are available in most urban areas throughout Scotland and, as in the rest of the UK and Europe more generally, mobile penetration has exploded over the past few years. The introduction of prepayment packages has been largely responsible for this sudden upsurge in penetration. Consumer organisations had urged the companies to market such payment schemes for several years prior to their introduction in order to simplify the costs and avoid confusion among consumers.

A large majority of residential mobile users now use phones with prepaid packages. Overall, a majority of homes in the UK - 77 per cent - have at least one mobile phone. The corresponding figure for Scotland is 71%. That said, it is also the case that mobiles are generally for personal use. The fact that one person in a household has a mobile does not necessarily mean that all individuals in that house have access to it.

In the UK as a whole the subscriber base is split fairly evenly between three networks - Vodafone (26%), BT Cellnet (27%) and Orange (27%) with One 2 One covering 20% of the market.

Research by Oftel in 2000 found that fewer consumers in Scotland had switched network operator than in any other region in the UK, indicating competition is less well-established north of the border. Only 22 per cent of mobile users in Scotland had switched mobile supplier or package compared with more than a third of those in the north and thirty per cent in the Midlands.
Overall UK data shows that mobile users are likely to be younger and more affluent, with 86 per cent of those aged between fifteen and 24 using a mobile compared to 41 per cent of those aged between 65 and 74.\textsuperscript{51} Importantly, mobile users are more likely to use other communications technologies at home - including pay-TV, a PC and home Internet. In comparison to access throughout the UK as a whole, consumers in Scotland are also less likely to have use of a PC or the Internet at home.

There are some other factors which distinguish the mobile market in Scotland from most other parts of the UK. Firstly, Oftel, the mobile operators and consumer groups have co-operated to publish data on the quality of service offered by the four networks. The third set of results was published in 2001 and was compiled using the data from 17,000 test calls over a six-month period. Seventy cities and towns were tested including major A-roads and motorways. Overall this data shows that more than 95 per cent of the calls made in the test were connected and completed successfully. However, in Scotland, results were below the UK average - 92\%.\textsuperscript{52}

Secondly, for many people, mobiles are used primarily as a means of staying in touch while on the move. The quality of network coverage is particularly important in Scotland where large patches in remote areas still have coverage that is either unreliable or non-existent. While the networks may be correct in claiming they cover 98 or 99 per cent of the population, this is perhaps meaningless if what you are interested in is staying in touch while you commute to and from Inverness, for example. In many parts of Scotland consumers do not have a choice of four networks. BT Cellnet and Vodafone have only just, and with public sector investment, completed a large network upgrade to bring mobile coverage to more remote areas of the North West Highlands and Islands.
In many of these areas One 2 One and Orange do not function.

**The Unphoned**

Oftel research has found that six percent of people in Scotland do not have access to a fixed line phone and that a further two percent have neither a fixed nor a mobile connection.

Oftel also stresses that ‘the unphoned are generally people with low annual incomes, the unemployed, non-skilled labour, small households (reflecting a high incidence of poorer pensioners and single-parent families) and with many living in social housing’. This view is supported by the SACOT research which showed that twelve per cent of council tenants did not have a phone and that fifteen per cent of those in social classes D and E did not have a phone.

Oftel’s strategy for tackling fixed link access problems has been through the provision of special schemes for customers on low incomes. These include the outgoing-calls-barred service In Contact and BT’s Light User Scheme. However, the issue of access to fixed link services and the high disconnection rate of telephony consumers will not be solved without the provision of prepaid telephony services. Those who are unphoned yet use mobiles, for example, report that the main advantage of using a mobile is the ability to monitor and control expenditure using prepaid vouchers.

A mobile service is not a suitable alternative for many people however. The National Consumer Council, for example, has pointed out that they tend to be less reliable, the geographic coverage is well short of a hundred per cent, many people are unfamiliar with the technology and may be unwilling to switch especially in later life, and the prices tend to
be higher.\textsuperscript{55}

In March 2001 BT launched its In Contact Plus service which uses a prepaid card, an access code and PIN so that customers can make outgoing calls. While the joining fee is low at £9.99 and the rental below £10 the call charges are very high at 15p per minute. Those using the scheme can buy cards in £3 denominations at ‘selected outlets’.\textsuperscript{56}

BT’s disconnection rate has been very high for many years and bears absolutely no relation to the disconnection rate of other utilities. In 1999 the figure was close to one million.\textsuperscript{57}

Oftel’s latest statement on the universal service obligation\textsuperscript{58} re-affirms the obligation on BT and Kingston Communications to provide basic connections to the fixed network, to improve access to low cost schemes and to have “proportionate and non-discriminatory” disconnection procedures which should be in the public domain. Oftel will monitor how this works in practice and has decided to establish a group comprising industry representatives, consumer groups and Oftel with the specific task of revising voluntary codes of practice in the lead-up to the next periodic review of USO in 2003.
MAKING THE TELEPHONY MARKET WORK FOR CONSUMERS IN SCOTLAND

Conclusions

"We will continue to ensure that those telephone services that are used by the majority, and are essential to full economic and social inclusion, are made available to everyone on reasonable request at an affordable price."\textsuperscript{59}

In Scotland, the telephony market is less well-developed than it is in most other areas of the U.K. BT continues to dominate the market, large tracts of the country remain without cable, and mobile penetration and coverage are lower than in most parts of the U.K. Many people do not have access to a phone at all and there is lower consumer awareness of the alternatives which do exist.

These problems with access to the most basic telecommunications technologies are a worrying baseline from which to launch the next wave of the information society. If Broadband Scotland is going to work for consumers, the essentials must be in place first. This cannot wait until the establishment of Ofcom but is a situation which the regulator, Oftel, the U.K. government and the Scottish administration must address now and in readiness for the new convergent regulatory framework.

Recommendations

To Oftel

1. Oftel should take action now to develop the telephony market in Scotland so that the commitment in the Communications White Paper to ensure universal access
to affordable services for consumers in Scotland is met. Specifically, this should include:

1A. Ensuring that forthcoming and future reviews of price controls and the universal service obligation include specific consumer impact assessments in relation to the market in Scotland.

1B. Carrying out an effective public awareness programme to highlight to consumers in Scotland the choices which exist in the marketplace.

In addition, we support the recommendations of the National Consumer Council that Oftel should:

2. Apply pressure on telephone companies to introduce easy to use, flexible pre-payment schemes which consumers on low incomes can afford.

3. Ensure that there is a choice of payment methods to help people manage their bills.

4. Undertake research with consumers in Scotland to build a profile of people who are disconnected.

5. Underpin operators’ codes of practice with formal obligations to ensure they are ultimately enforceable, including making it clear that failure to meet targets will lead to mandatory licence amendments and possible use of sanctions.
To the DTI and DCMS

6. Ofcom’s powers should be strengthened to require the operators to disclose price information in a standardised comparative format.

The lack of adequate comparative information on tariffs has been one of the key barriers to switching suppliers and empowering consumers to make choices which are in their own best interests. Oftel has no power to make companies disclose such information and the current system is voluntary, incomplete and therefore inadequate.

To the Scottish Executive, the DTI/DCMS, and Oftel

7. The Scottish Executive, the DTI/DCMS and Oftel should work together, and be seen to be working together, to make the Scottish market work for all consumers.

As we highlighted in Chapter 2, the regulatory responsibilities at UK level overlap with the profound social, economic and environmental issues which are devolved to the Scottish Executive. Therefore, a co-ordinated approach to resolving the problems in the market is essential. It will be important that Oftel, which has no office in Scotland, develops a stronger presence in Scotland.
Chapter 4  Internet access in Scotland

THE MARKET

Introduction

Perhaps the government’s most important policy response to the development of the Internet is the promise to achieve universal access by 2005 for those who want it. This is a key aim of the White Paper A New Future for Communications. Although a lofty goal, it is clear that the value of this commitment depends on the definition of ‘universal access’. The goal is likely to be harder to achieve in Scotland where there is the lowest proportion of homes connected in the U.K.

The term digital divide is used often and is applied to a variety of issues involving new technology. However, broadly speaking - and certainly in the Scottish context - it is used to describe an obvious trend that sees important differences in the proportion of people from different social groups who access the Internet. The fact that a digital divide exists is not in dispute. However, the best way to tackle that divide certainly is.

This chapter will explore the issue of access to the Internet and look at policy commitments aimed at improving access in Scotland.

Internet Access Indicators

All available evidence shows that Scottish consumers have less access to the Internet than anywhere else in the U.K. The recent Oftel survey on Internet access reported that 37% of U.K. homes had access to the Internet but that the corresponding figure for Scotland was 27%. Growth rate over the previous six months indicated that the gap was still widening - 5% for the U.K. and 3% for Scotland.
The SCC's own research has put the figure at 23 per cent for Scotland, 30 per cent for England as a whole, and as much as 35 per cent for London and the south. However, having access to the Internet and having the confidence to use it are two different things. Our report focused on consumers' use of e-commerce and we were concerned to find that, of the people who did have internet access, only 2 per cent used e-commerce on a regular basis and only 7 per cent used it at all.

The evidence is supported by data from a much wider survey of seven thousand people carried out by the Office of National Statistics. Its recent report on Internet access notes that 37% of all UK households have access to the Internet at home. This survey also found that only 24% of households in Scotland have access to the Internet although.

Unfortunately, while Oftel and the ONS give overall access figures for Scotland, these are not broken down to indicate which groups are most likely to experience access problems. Even so, the overall Oftel and ONS figures for the whole of the UK reveal that access tends to be lowest among:

- those aged 55 and over;
- C2 and DE social groups;
- small households of one or two people;
- those on low incomes; and
- those not working.

These indicators provide a clear picture of the groups where there are obvious access problems. This is again supported by our own findings which revealed that 93 per cent of those with Internet access at home are homeowners.
The ONS figures are perhaps more useful in teasing out other helpful indicators. The ONS has also found that levels of access depend very strongly on income. It divided the sample into ten deciles according to gross income and found that well under ten per cent of households have access to the Internet among those in deciles one and two (see Figure 1). However, perhaps more worryingly, the increase in uptake among those in the lowest five deciles is very low. Over the monitoring period, those with access in the lowest decile increased by just one per cent. The equivalent figure for those in the highest decile was twenty three per cent. The difference between those in the bottom three deciles and those in the top three is stark.

![Figure 1](Households with home access to the Internet in the UK by gross income decile group)

<table>
<thead>
<tr>
<th>Decile Group</th>
<th>1999 to 2000</th>
<th>2000 to 2001</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest ten per cent</td>
<td>6</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Second decile group</td>
<td>3</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Third decile group</td>
<td>4</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Fourth decile group</td>
<td>6</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Fifth decile group</td>
<td>15</td>
<td>23</td>
<td>8</td>
</tr>
<tr>
<td>Sixth decile group</td>
<td>15</td>
<td>32</td>
<td>17</td>
</tr>
<tr>
<td>Seventh decile group</td>
<td>22</td>
<td>39</td>
<td>17</td>
</tr>
<tr>
<td>Eighth decile group</td>
<td>28</td>
<td>50</td>
<td>22</td>
</tr>
<tr>
<td>Ninth decile group</td>
<td>38</td>
<td>59</td>
<td>21</td>
</tr>
<tr>
<td>Highest decile group</td>
<td>48</td>
<td>71</td>
<td>23</td>
</tr>
</tbody>
</table>
Access Speed

BT currently has a universal service obligation to supply telephony service with a minimum data speed of 2.4 kbits per second. While acceptable for voice telephony this is much too slow for normal Internet use. In September 2000 Oftel stated that most UK users - around ninety per cent - had access to much faster speeds of 28 kbits per second which it said should provide 'adequate speeds for reliable access to e-mail services and many current uses of the Internet'. However, ten per cent did not have access to 28 kbits per second and Oftel announced its intention to seek further information from BT and Kingston about data speeds being achieved by the remaining users.

Anecdotaly it is well-known that many users in rural parts of Scotland do not access the Internet at 28 kbits per second. In fact connection speeds are frequently much slower and Internet use can often be frustrating and difficult.

Oftel's view is that appropriate data speeds for networks should be set within the USO in line with the government's goals of universal Internet access. However, it has also welcomed the proposal to remove the minimum data speed requirement from EU legislation allowing member states to set levels appropriate to their own circumstances and, in addition, has been arguing for an upper ceiling on the data speed 'to ensure that regulators do not impose undue burdens on industry'.

Scotland's Digital Divide

The Scottish Household Survey data is broken down by 'neighbourhood type' creating a geo-demographic variable known as the Scottish Mosaic. The February 2000 bulletin revealed the extent of unequal access to the
Internet in a Scottish context among these different social and geographic groupings. See Figure 2.

![Figure 2](image)

<table>
<thead>
<tr>
<th></th>
<th>High-Income Owners</th>
<th>Middle-Income Owners</th>
<th>Low-Income Owners</th>
<th>Better-off Council Tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer/PC</td>
<td>50%</td>
<td>40%</td>
<td>32%</td>
<td>22%</td>
</tr>
<tr>
<td>Internet Access</td>
<td>22%</td>
<td>18%</td>
<td>13%</td>
<td>7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Disadvantaged Council Estates</th>
<th>Families in Council Flats</th>
<th>Renting Singles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer/PC</td>
<td>19%</td>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>Internet Access</td>
<td>5%</td>
<td>4%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Obviously, the overall percentages - calculated from a survey carried out in 1999 - reflect lower levels of access than currently exist. However, these figures do reveal an alarming inequality in access to the Internet and personal computing. More than one in five ‘high-income’ families in Scotland had access to the Internet while the equivalent figure for ‘families in council flats’ was fewer than one in 25. While not directly comparable, these Scottish Executive figures broadly confirm the Oftel and ONS findings at a UK level that this inequality is closely related to income and social class.
When these Scottish survey findings were made public, the then Minister for Communities said: ‘These figures make it clear there is a “digital divide” to fight. There’s a wide gap between the information “haves” and the “have nots”. Increasingly in the future what we earn will be based on what we learn. We need to make sure that those opportunities are open to all.’

**UK Government Policy**

The government’s policy of achieving universal access to the Internet by 2005 is a key plank of *A New Future for Communications*. The White Paper says this aim will be achieved with access ‘either through devices at home, work or on the move or through access in a nearby community centre’. Universal access, therefore, is open to interpretation and it certainly does not mean universal access to the Internet from home.

The government has made a range of broad commitments as part of the UK’s online strategy. Many of these outline business and e-commerce initiatives. However, several also include more detailed plans for ‘confident people’ - improving access in the population generally. These include plans to:

- Implement a package of measures to improve access to the Internet at home, at work and in the community;
  - At home:
    - Encourage employers to provide PCs and Internet access for home use
    - Encourage low-cost leasing schemes for public sector employees
    - Provide low-cost recycled PCs for 100,000 low-income families
  - At work:
    - Promote benefits to employers of having all employees with Internet access
Ensure that all public libraries offer Internet access with trained staff to offer support
Pilot new initiatives in post offices to help people access and use the Internet
Pilot access for disadvantaged communities

- Embed information and communication technology (ICT) skills in the education system and throughout lifelong learning
  Education system:
  Improve ICT infrastructure in schools, further and higher education
  Improve educators' ICT skills
  Stimulate high-quality online educational content
  Introduce ICT work placement programme for 16+ students
  Lifelong learning:
  Invest £84m in 2000-01
  Offer free ICT 'taster' courses to the unemployed
  Offer eighty per cent discounts for computer literacy training
  Offer high-quality lifelong learning content

- Work with industry to ensure a safe and secure environment for e-commerce and to help people trust the Internet by:
  protecting children, safeguarding online consumers, reducing online fraud, combating online criminal activity, and protecting online security

- Help increase people's motivation to access the Internet by driving up the amount and quality of social content by:
  promoting local online content and exploring ways to stimulate development and availability of high-quality online cultural content.
Although the regulation of both telecommunications and e-commerce are reserved matters for the UK Parliament, the government has stressed that implementing many of the issues relating to the national online strategy will be the responsibility of the Scottish Executive. Areas for which the Scottish Executive has direct responsibility include:

- e-government (relating to devolved services);
- promoting e-commerce with SMEs;
- education and training;
- social inclusion; and
- electronic procurement and legal barriers to e-commerce (where these relate to devolved matters).

**Scottish Executive Policy**

In 2000, the Scottish Executive Minister Wendy Alexander gave evidence to the Scottish Parliament Enterprise and Lifelong Learning Committee (ELLC) inquiry into the 'new economy'. She said:

'On the question of universal access, the crucial issue is the definition of universal access. However, I think that we are undoubtedly on target to achieve universal access, if the uptake of digital television is taken into account. I note in passing that the commitment is not to universal access in everybody’s home, but to having a community facility in which access is available. Given that universal access has nominally been achieved, the more meaningful measures and targets over the next two years should relate to usage, skill levels and ubiquity of technology rather than access per se.'

According to the Scottish Executive, therefore, a shift of emphasis is needed as universal access has been achieved 'nominally'.
The essential question therefore, for those on the wrong side of the digital divide, is whether the Scottish Executive's current and future initiatives will narrow the digital divide more than the ill-defined and vague commitment to 'universal access'. Universal access may appear to be a useful goal for the government and the Scottish Executive. However, all available evidence shows that the vast majority of households in some disadvantaged groups do not have access to the Internet at home and a large proportion of them have not even tried logging on.

**Digital Scotland**

The Scottish Executive's plans to tackle the digital divide and respond to the challenges of new technology were first made clear in *Digital Scotland - The Way Forward*, published in September 2000. This was the Executive's response to the Digital Scotland Task Force report. This ambitious document contains general proposals for action on e-inclusion and e-communities including:

- improving access to Internet points in community-based facilities;
- evaluating a scheme for affordable computers for low-income households;
- the electronic delivery of public services by 2005;
- local ICT 'champions' to promote the development of ICT-based services at a local level;
- making sure that Social Inclusion Partnership areas ensure that the promotion of ICTs is an integral part of their activities; and
- the creation of a Digital Inclusion Unit to co-ordinate digital inclusion initiatives.73
In her evidence to the ELLC Wendy Alexander said that around £250 million was committed to meeting two broad objectives - universal access to digital technologies by 2005 and making sure all government services are online by 2005.\textsuperscript{74}

While this injection of money is no doubt welcome, there is a broader picture worth painting. While around £250 million has been committed by the Scottish Executive to initiatives to promote digital technology, only a fraction of this amount is actually being spent directly on projects to narrow the digital divide. In fact, taking all the current Scottish Executive initiatives into account, the figure is around £23 million. Wendy Alexander said herself that, of the £250 million committed, about £20 million is earmarked for 'digital inclusion-type initiatives'.\textsuperscript{75} This injection of cash was announced when the Scottish Household Survey statistics revealed the true extent of the digital divide in Scotland early last year.\textsuperscript{76} The fund was to be directed to IT training skills, especially in disadvantaged areas, new learning centres across Scotland and websites to help people learn new skills, network and overcome exclusion.\textsuperscript{77} At the same time as this funding initiative was launched, Wendy Alexander also announced that the Royal Bank of Scotland had said it would refurbish and donate five hundred Internet-ready computers to support community schemes.

This £23 million was actually sourced from the New Opportunities Fund which distributes National Lottery funds and is part of a wider programme of £200 million across the UK. It was not, therefore, Scottish Executive cash. However, this should be seen in the context of the Scottish Executive's broader financial commitment to 'digital Scotland'. Scottish Executive evidence to the Enterprise and Lifelong Learning Committee (ELL) details that the Scottish Executive has committed:
• £ 80 million to Scottish local authorities to develop the National Grid for Learning in schools;
• £ 29 million up until 2002 for the Further Education element of the National Grid for Learning;
• £ 1 million to helping nearly 5,000 teachers buy their own computers with a £ 200 refund;
• £ 26 million on the Modernising Government Fund for 'innovative public sector projects which are aimed at improving the quality, effectiveness and efficiency of public services in Scotland often through the application of ICT';
• £ 50 million over three years on the development of electronic health services in Scotland; and
• £ 40 million for the 'knowledge economy'.
Case Study: At the Coalface

Craigmillar Community Information Services in Edinburgh provides vocational training and aims to ‘improve digital literacy and self-confidence among specific groups who would otherwise not have access to ICTs as a way of enhancing quality of life and sustaining a digitally-inclusive community.’ It offers a range of services including: free web-surfing for local residents; free e-mail accounts; free user support, guidance and advice; free access to wider area networks of distributed electronic intelligence; the sale of web accounts; assistance with the creation, hosting and posting of web pages; ‘upskilling’ and networking training, and access to other linked facilities.

CCIS is at the coalface of digital inclusion, located in the heart of one of Scotland’s most deprived communities. Over ten months in 1999 CCIS worked with more than four hundred people on an individual basis and in groups such as ‘Techno Tots’, ‘Wannabe Web Wise Women’, ‘Cyber Grannies’ and ‘Telematics for Lone Parents’.

The Manager of CCIS, Andrew McDonald, says that government rhetoric about digital inclusion and universal access has not, despite the constant reference to £250 million, been matched by properly targeted funding commitments. ‘The point is, if people are already marginalised in an area like Craigmillar then they are going to be further marginalised and inequality will be reinforced if they are not given access,’ he said. He defines access as not only access to the technology, but access to training, free support and advice. In his view, universal service and access through the provision of Internet-enabled PCs in community centres and libraries will only be effective if adequate back-up resources are in situ along with local, practically oriented, digitally inclusive strategies which local people deem to be relevant to their needs and interests. He also says real access for deprived communities – many of which don’t have access to any service like CCIS – is not going to be spontaneously provided with the distribution of reconditioned computers without adequate levels of ICT support. Most importantly, however, he says there appears to be a serious lack of co-ordination at a local level to plan and implement measures on digital inclusion. Even with the Executive’s much trumpeted network of eight ‘Digital Champions, only one was appointed for the whole of Edinburgh and Fife.

“We need digital champions in every community of digital need.”

The main difficulty CCIS faces, however, is the headache associated with multi-agency funding. This year – because of funding cuts – it was forced to plan a relaunch of the entire project with fewer staff. It now has only two full-time employees.

66 consumers and communications in Scotland
Connecting Scotland's People

The Scottish Executive's most recent statement on digital inclusion was contained in Digital Inclusion: Connecting Scotland's People. The strategy sets out how the Executive will set out to achieve digital inclusion. The Executive is committed to a co-ordinated approach to ensuring that “every individual in Scotland has a convenient, easy, reliable and cost-effective means of accessing the Internet” and to ensuring that people have the skills and confidence to use the Internet.

We welcome the recognition of the fact that intervention is needed and that this will have a “joined-up” theme. There are some very welcome developments including:

- A commitment to community involvement and ownership and to ensuring that disadvantaged individuals and communities have access to the online content and services which they wish to use. There will be two pilot digital communities in disadvantaged areas in Scotland and key elements of these will include provision of PCs and software in up to 2,000 homes, development of a community web portal, and training and support for users.

- Proposals to provide a basic levels of skills in using the Internet and proper sources of advice and support.

- Measures to enhance people's awareness of the opportunities that ICT can provide.
We believe that the publication of such a strategy is a major step forward and we welcome the initiatives which have been proposed. However, we do believe that more needs to be done if the gap in the digital divide is to close properly and within a timescale which actually prevents it getting wider. The strategy falls short of making a commitment to achieving universal access in the home. The proposals for awareness raising, promotion and support must be accompanied by such a commitment. In the age of 21st Century Government and electronic delivery of essential public services, public access to the web, while welcome, will not ensure effective access to these services. If you can’t access your doctor’s surgery from the house, and in confidence, what is the point of going to a public terminal instead of the surgery itself?

INTERNET ACCESS: MAKING THE MARKET WORK FOR CONSUMERS IN SCOTLAND

Conclusions

‘In future, the delivery of public services direct to the citizen in his or her home must be central to public policy in this area. We see insufficient signs of such centrality in the Communications White Paper.’

If the ‘digital divide’ exists anywhere in the UK, it exists in Scotland. Fewer consumers have home access to the Internet north of the border than any region in England. Just as worryingly as the overall connection rate is the fact that the growth rate is slower and therefore the gap widening. This is compounded by the marked divisions in access to the Internet between different social groups in Scotland.
We welcome the holistic approach being taken by the Scottish Executive to bridge the gap and agree that buying a PC for every home in Scotland is not only an impossible financial aim but a counter-productive one. However, bearing this in mind, we still believe that the Executive's strategy is incomplete in that it fails to provide a consistent and clear definition of what it means by universal access. We believe that universal access must mean access in the home. If the Executive nominally achieves access for all in community centres is it going to assume that it has reached its goal?

We would also like to see the Scottish Executive's strategy for digital inclusion publish meaningful targets and performance indicators which are placed within the context of eEurope and the Communications White Paper.

Recommendations

To the Scottish Executive

8. The Scottish Executive should redefine 'universal access' to the Internet as access in the home.

9. The Scottish Executive's strategy for digital inclusion needs to be enhanced by the identification of meaningful targets which are placed within the context of eEurope and the Communications White Paper, and with details on how they will be achieved and measured. The benchmarking and monitoring techniques being developed at EU level should be utilised. The initial target should be to have a growth rate in access equal to that of England but the ultimate aim should be to ensure
universal access in the home.

We agree with the House of Commons Select Committee that a focused approach to the delivery of public services direct to the citizen in his or her home must be an essential feature of public policy. This is in the spirit of the eEurope vision that every citizen, home, school, business and administration should be online. This strategy must also aim to include effective participation of people with disabilities in line with the eParticipation initiative.

10. Promotion of Internet access through digital television should be a key part of the Scottish Executive’s strategy.

While uptake of digital television has been relatively slow until now, the ongoing expansion of services and technology, combined with analogue switch-off, presents a highly accessible way of achieving digital inclusion. We cannot agree more with the House of Commons Select Committee that digital television is “an easy and affordable gateway to the Internet”.

11. Formulation and evaluation of grass-roots and community initiatives to promote digital inclusion must have consumer input from an early stage.
There has been a top-down approach to tackling digital inclusion. Communities must be involved in identifying what is needed at local level and in evaluating the outcomes. The new emphasis on community involvement in Connecting Scotland’s People is very welcome. However, we note that communities will have to submit bids containing a coherent strategy and development plan. This is a tall order for community groups with limited resources and we believe that this initiative must be accompanied by a mechanism to assist communities to formulate bids which will have a reasonable chance of success. Evaluation of the pilots must be followed by a commitment to rolling out the initiative.

**To Oftel and the DTI/DCMS**

12. In preparation of the expected relaxation of the current European requirements for minimum data speeds in 2003, Oftel should ensure that it has a complete picture of data speed being achieved by users across the whole of Scotland and, in particular, rural and remote areas. The regulator should then set minimum data speeds which reflect typical usage across the board to ensure that consumers in Scotland receive an adequate service.

Access to the Internet at an acceptable speed prior to the roll-out of broadband should be a high priority for Oftel and Ofcom. Any gaps in information need to be filled. This needs to be followed up with a minimum threshold for data speed which is enforced and reviewed regularly.
THE MARKET

Central to the discussion about the future of the Internet is the roll-out of broadband technology. Technically, broadband can be defined as a service or connection allowing large amounts of data to be carried very quickly, and which can split the available bandwidth into multiple channels. However, it is the services that this technology can bring that will have such a profound impact. The Scottish Executive states that the services that broadband technology are bringing are changing the way we work, communicate, learn, shop and spend leisure time. Societies and economies which respond vigorously to the opportunities which digital technologies bring are likely to be more prosperous and inclusive than those which are slow to respond.¹⁸³

Broadband is, however, not universally available and this fact alone has led to fears that a 'digital divide' may emerge. If this happens, it is argued, large areas - mostly away from urban centres - will be disadvantaged as consumers and businesses are unable to exploit the new technology. Any debate about broadband, however, can only take place within a context that is constantly changing. The technology involved is extremely complex and it is developing at an astonishing speed. Just as importantly, there are a large number of companies and public agencies involved in the structural development of broadband.

Broadband Technologies

There are numerous technologies that can deliver broadband and there is a debate about what will become the technology of choice in the short and medium term. The technologies too are changing and evolving all the time and it is beyond the scope of this report to conduct a detailed analysis of the technologies themselves. However, we describe some of
the technologies being used here.

**ISDN**

Strictly speaking, ISDN (Integrated Services Digital Network) is not a broadband connection, although in the debate about access to higher-speed telecommunications it is often bracketed with ‘broadband’ options. ISDN is a digital alternative to the standard (analogue) telephone network, without the need for new cabling. ISDN provides multiple channels per line, offering a high-speed connection as well as the ability to use analogue services such as fax. ISDN is, however, very expensive and the standard residential ISDN option costs £175 to install and £27 to rent per month from BT.

**ADSL**

ADSL (Asymmetric Digital Subscriber Line) broadband technology links subscribers to local exchanges using existing copper wires that are part of BT’s existing local loop infrastructure. ADSL is part of a family of technologies that are collectively known as DSL. The ADSL version of this technology means that a large quantity of data (such as a TV picture) can be sent in one direction (the download speed) and a small quantity of data (such as voice telephone call) can be sent in the other direction. Hence ‘asymmetric’.

BT is currently rolling ADSL technology out across the country and has reached its target of 60% coverage. However, given current costs and existing technology, commercial pressures mean that it is certain that if the market is left to itself ADSL will not be made universally available.
BT is not the only company that offers ADSL. In some parts of the country it is offered by Freeserve, Plusnet and others. This raises the question of local loop unbundling which is described below. ADSL is also offered in some cable TV franchise areas where companies used copper wire connections known as Hybrid Fibre Coax (HFC).

**Cable**

Cable TV companies such as NTL and Telewest also offer a broadband service with the use of a cable modem and this is probably the only other practical option currently available to the residential consumer, and BT’s main rival in the broadband market. This broadband option requires a cable modem which also offers an ‘always on’ service. Telewest has already rolled this service out in many of its franchise areas including: Edinburgh, Cumbernauld, Dumbarton, Dundee, Falkirk, Glenrothes, Motherwell and Perth.

**Satellite**

In 2001, the Highlands and Islands Partnership Programme made an analysis of telecommunications infrastructure in the Highlands of Scotland publicly available. Written by the telecommunications consultancy Ovum, the report states that while the broadband downstream path is reliable, satellite systems rely on terrestrial technology for the upstream path. Thus, in areas where broadband in other forms is not available, the satellite option will be limited by the speed of the upstream path. Ovum concluded that such a service would only ever meet a ‘niche’ market. Whereas technically satellite may be able to overcome the problems of peripherality, the high prices which result from satellite being a niche service, mean that remote users will always be commercially disadvantaged.
However, BT is currently trialling satellite ADSL in the Highlands and Islands. BT claims that this service will meet demand for always-on, high speed Internet services for businesses in remote locations. Rental prices for the service will be expected to start at less than £100 per month. The scheme has been welcomed by Highlands and Islands Enterprise as helping to create a level playing field for businesses in the area. If the service proves successful then it will have a significant impact on bridging the geographical barriers which currently exist, although the focus on serving business and the costs of renting the service may make it an unlikely option for residential consumers for some time to come.

Broadband via satellite digital television has been widely described as a possible answer but it too suffers from the same problem of dependency on terrestrial return paths. BSkyB does not yet offer Internet access but will do so in the future. However, it aims to integrate Internet access with its television service and in pursuing this strategy it can only offer a 'walled garden' approach. This means that open access to the worldwide web will not be available. BSkyB will only allow access to approved parties.

**Other Broadband Possibilities**

Fixed Wireless Access (FWA) technology makes use of the radio spectrum to connect customers to a fibre-optic network. This provides a true broadband connection. The recent auction for broadband spectra saw a licence for this awarded to Energis although the Scottish Executive has recently said that 'the extent of their investment plans, especially outside the central belt, is currently unknown'. The Scottish Executive has also stated that further auctions of broadband spectra are planned.
The third generation (3g) mobile services will allow high-speed Internet access. However, 3g mobile networks operate using smaller cell sizes meaning that infrastructure ‘in-fill’ is required. The licences sold at auction by the government (for £23 billion) demand that the holders provide a service covering an area inhabited by eighty per cent of the UK population by 2007. Given this, the Scottish Executive has concluded that the extent to which 3g mobiles will penetrate rural areas is therefore uncertain. However, the technology known as General Packet Radio Services (GPRS) makes use of the second generation network to provide high-speed Internet access albeit at a lower rate than 3g. As it can use the existing network the Scottish Executive is optimistic that there ‘is potential for extensive coverage’.90

A range of other broadband technologies has been developed. However, it is beyond the scope of this paper to describe these options in any detail as they are currently not considered to present significant opportunity for the roll-out of broadband in Scotland. Perhaps the most promising is broadband connection via electricity distribution systems. Known as Power Line Technology (PLT) its advantage is that it utilises an infrastructure that has already been established and allows for strategic partnerships between electricity utilities and telecommunications companies. Some experts believe the technology holds great potential.91 On the other hand PTL is still being developed and, in Scotland at least, no developments involving PTL appear to be underway.

**Local Loop Unbundling**

The local loop is the part of the telecommunications infrastructure between the local exchange and the consumer’s house. An obvious advantage that BT has had is that it controlled the legacy of privatisation
- a physical connection to every home phone user. The policy of ‘unbundling’ the local loop aims to give competitors to BT the opportunity to have access to the local exchanges to install equipment to offer competing services. This is particularly important in relation to broadband as most of the companies expressing an interest in what is termed ‘co-location’ want to offer their own version of DSL broadband technology.

The complex process of agreeing which companies should have access to which exchanges was agreed between Oftel, BT and the competing operators in 2000. However, that system of allocation was overhauled more recently when far fewer companies placed firm orders for co-location than expected.92

The development of the LLU has involved the identification of 1500 or so exchanges located where demand for broadband is likely to be highest. Clearly, many of these exchanges will be located in urban areas in Scotland. However, it is also clear from the slow demand from competing companies that competition over BT’s local loop to provide DSL services is likely to develop slowly. Out of the first 25 sites offered for co-location only fourteen attracted orders. Obviously, the most remote exchanges serving the fewest consumers will not attract interest from BT’s competitors for some time, if at all.

Therefore, for the foreseeable future, broadband provision is patchy and, given current economic realities, it is unlikely that companies will have any incentive to expand broadband access beyond the concentrated urban markets already earmarked for development.
Potential availability of broadband technology being made available in specific locations depends on a number of issues. These include:

- the existing telecommunications infrastructure;
- the economics of upgrading;
- likely demand;
- the potential for government subsidy; and
- competition.

One crucial point that is rarely made in debates about broadband access is that as Internet technology speed of access improves for some people, the experience for those relying on slower technology actually degrades. As more and more people access higher bandwidth technologies, Internet designers respond with better content such as complex graphics, video and audio. Ovum has actually predicted that the Internet experience for those using ISDN 2 (at 128 kbit/s) will become ‘frustrating’ within the next few years.93 This is already a problem in Scotland, where in some areas people can only access the Internet at 14 kbit/s.

**Broadband Indicators**

Up until recently it has been impossible to quantify the demand for broadband in any meaningful way. However, BT’s roll-out of ADSL technology has meant that OfTEL can test consumer opinion about the costs, benefits and hopes for the technology in a real market context.

At the end of 2000, OfTEL included a range of questions about ADSL in its ongoing survey to assess how consumers are using the Internet. Previous surveys had found that only a small minority of heavy Internet users used anything other than an ordinary phone line and PC for an
Internet connection. ISDN users tended to be experienced in using the internet and were likely to be in the AB social grades. Those using Home Highway had a broader profile.

In November 2000, Oftel asked consumers directly about ADSL in particular. This survey found that the aspects of the service that were of most interest to existing Internet users were the higher speeds it offers and the fact it offers a dual service - Internet and phone use at the same time. Overall, 62 per cent said that the fact ADSL was ten times faster than an ordinary phone line was 'very attractive'. Those Internet users who said they were not interested in ADSL were asked why. At least one in three of those said they did not use the Internet enough to merit a switch to ADSL.

Oftel found that one quarter of those surveyed said they would be likely to sign up to ADSL in the next twelve months at a cost of £40 per month. Oftel concluded that the potential early adopters of ADSL are, perhaps predictably, those who use the Internet the most, the young, those in larger households and those spending a lot on fixed-line calls. Interestingly, however, those who had used the Internet for a year or more (longer established households) were more likely to say they would opt for ADSL in the next twelve months.94

**Broadband and the Universal Service Obligation**

'There is some evidence that some regions and groups are being left behind by the general increase in home Internet use. The possible further widening of this digital divide as higher bandwidth services become available is clearly a significant concern for government policy on social exclusion.'95
As we discussed in Chapter Four, Scotland has the lowest level of access to the Internet at home. It is clear therefore, that the above statement applies to Scotland more than to any other part of the UK.

Part of the debate about the USO is whether it should be extended to improve the service consumers can expect on a universal basis. A key part of this consideration is whether the USO should be extended to encompass higher bandwidth services. Oftel says: 'The rationale for the USO is to ensure that those telecommunications services which are essential to social and economic inclusion are made available to everybody upon reasonable request in an appropriate fashion and at an affordable price. The USO is a safety net, used where the market has not been able to deliver. It ensures that services that are used by the majority are available to all.'

The main question in relation to broadband is whether the USO should be extended to guarantee all reasonable requests for ADSL-type services which Oftel says will be available to around seventy to eighty per cent of all households by the end of 2002. It adds that regulatory action designed to promote competition - such as local loop unbundling - should spur roll-out even further.

Oftel's approach to this issue is to rely on the development of market-led solutions and not on regulatory intervention to support any one delivery mechanism, which will impose cost burdens on the industry and restrict consumer choice. Oftel's view is that, as the market develops over the next few years, increased competition should result in lower prices and affordable access for most of the population.
Not surprisingly, BT supports this view and also argues that if the USO is to be used for bandwidth provision in the future then the rules used by Oftel to regulate the USO should be changed and extended beyond the telcos.

Oftel, therefore concludes that higher bandwidth services do not yet meet the primary test for consideration as part of the USO requirement - because they are not yet services used by the majority. Oftel is, however, committed to keeping the situation under regular review.

Extending the USO is constrained by European legislation which does not allow higher levels of service to be funded by industry levy. Therefore, for the time being, government would have to meet the cost of any extension through taxation.

Oftel has made a commitment to keep the definition of the universal service obligation under review and will support this review through undertaking research and monitoring consumer access, preferences and demand in relation to broadband.

Infrastructure Problems

A January 2001 study, carried out by Ovum for Scottish Enterprise, painted a positive picture about the state of Scotland’s networks. Network build and enhancement has been achieved, the report notes, through ‘market forces in the more commercially attractive parts of Scotland, and by a series of publicly funded initiatives in the Highlands and Islands’.

This rosy view was echoed in the first Digital Scotland Task Force report that survey work has shown that ‘infrastructure in most parts of Scotland is equal to or better than the rest of the UK outside London; that there is healthy
competition throughout most of Scotland from fixed and mobile service providers; and that there is sufficient trunk capacity to meet demand growth.\textsuperscript{99} It added that: 'Given the importance of high speed digital communications, we believe that provision of services should be monitored and information gathered so that any gaps or potential difficulties can be anticipated'.\textsuperscript{100}

Those gaps and 'potential difficulties' are starting to surface. Further work carried out by Ovum, and made publicly available in March 2001, reveals that there is a high probability that the Highlands and Islands region (and other rural areas) will be disadvantaged in the broadband services market over the next few years.\textsuperscript{101}

The main trunk networks in Scotland are all fibre. This means that they will have more than enough capacity to cope with expected traffic growth over the short and medium term. However, the Scottish Executive has concluded that trunk capacity in island and remote areas 'is a real constraint on the promotion of economic development in island and remote rural areas'.\textsuperscript{102}

Just as important is the quality of the local network in rural areas. As in most other areas, the existing network connecting homes is copper. Broadband over existing fixed-link networks would depend, therefore, on ADSL. However, the Scottish Executive points out that the quality of this local loop infrastructure varies from area to area. 'This means that the cost of installing ADSL is not uniform across the network: some rural local loops are likely to be much more technically difficult and therefore more expensive to upgrade', the Executive notes. Just as important is the fact that many homes are located miles from local exchanges which means that even if ADSL were introduced, the signal would degrade to such a degree that it would make it practically unavailable for many consumers.
The analysis carried out by Ovum for the Highlands and Islands Partnership Programme makes depressing reading. In conclusion it states ‘... the Highlands and Islands region will find it difficult to attract substantial broadband infrastructure investment in the next 3-5 years’.

**Broadband and Local Loop Unbundling**

From the consumer perspective, one of the most worrying aspects of broadband roll-out is the degree of faith being placed on local loop unbundling (LLU) to spur competition and promote faster infrastructure development.

But while LLU is undoubtedly welcome, its potential for contributing to universal access should be put into context. As we outlined earlier, initial interest in competing at this level has been disappointing. Some companies have dropped out altogether.

Moreover, evidence closer to home suggests that LLU almost certainly won’t be a market answer to the problems of access in rural areas. Ovum has concluded that the regulatory implementation has both positive and negative implications for the Highlands and Islands (and therefore most rural areas). For example, the fact that building rentals are low in remote areas should help reduce some costs for competitors with BT. However, Ovum says the negative considerations clearly outweigh the positive. Set-up costs are likely to be high, costs per customer are likely to be extremely high and the cost of new-line build will be higher in rural areas compared to the average. Overall Ovum estimates that the costs of co-location per customer in a rural village will be fifty times that per customer in an urban area. The costs will be five times higher for someone in a small town.¹⁰⁴
Broadband Demand and Infrastructure Roll-out

Given the problems associated with the infrastructure away from Scotland’s urban areas, coupled with the fact that there are no serious challenges to BT’s dominance in the domestic market, it is absolutely reasonable to assume BT is likely to dominate ADSL infrastructure roll-out for the foreseeable future. Additionally, it will be the only player across much of Scotland.

In January 2001, the Director of BT Scotland, Graham Moore, gave evidence to the Scottish Parliament ELLC inquiry into the New Economy and made it clear that there are large areas where it would not make commercial sense to deploy broadband to domestic customers. ‘In geographically difficult areas... it is hard to envisage a commercial framework within which there could be a successful return for organisations such as mine.’ 105

Given this, BT is pursuing three strategies it believes will contribute to closing the digital gap. Firstly, BT ‘is pushing the technology’. ‘Within the next two or three years, technology that might not even exist at the moment could provide a low-cost solution to the challenge of providing ubiquitous broadband,’ BT has said.106 Secondly, it is looking at commercial models and the possibility of sharing funding between the public and private sectors. Thirdly, BT and the other companies involved in the debate about infrastructure development, are stressing the need for demand creation before sensible decisions can be made about the speed and extent of infrastructure roll-out.

Currently the figures may imply that it is entirely uneconomic to roll-out broadband into a particular area. However, BT says that work underway with public bodies to model private and public demand into the future may show that such a venture may be commercially viable in
A pivotal part of this demand creation, BT says, is the way the public sector can use its power as the biggest customer for new technology in rural areas. BT says the power the public sector has in this role could act as a catalyst to spark demand from other companies. Infrastructure roll-out may take place where currently the figures imply it is uneconomic to do so.

Because of the decrease in capacity beyond 3km from a local exchange, ADSL’s usefulness in rural areas is limited. In their evidence to the ELLC, BT said that it was not a technology they would opt to use in a rural setting such as the Highlands. However, it has announced plans to introduce Rate Adaptive ADSL. This will aim to give extended reach beyond the 3km limit although BT does not commit to guaranteed backstream speeds due to line quality at extended distances.

Another option for infrastructure roll-out could involve partnerships between the private and public sector in very small-scale developments. BT’s General Manager of Strategic Partnerships, Brendan Dick, describes a situation in which a small rural town or community - such as Ullapool - may calculate it has, or will have, sufficient demand for a broadband infrastructure development. However, its physical distance from the core trunk network is too far to make a connection commercially viable. In these circumstances, he says, public money could support its construction and, through co-operation with the private sector, resell the bandwidth locally. This demand would obviously be stimulated by local business but with obvious benefits for consumers in that area.

Ovum has calculated that deployment of DSL broadband services will only be commercially viable where a minimum 350 customers adopt DSL services per local switch. Given a ten to twenty per cent uptake, then Ovum suggests that BT can only justify deployment in the fifteen
largest towns in the Highlands and Islands. Presumably, this situation will be mirrored in other rural areas. Commercially speaking, DSL will therefore extend to 33 per cent of the population of the Highlands. Beyond those towns, Ovum reckons DSL will not be viable but a financial incentive of £1 million could see it installed in another fifteen towns - another six per cent of the population.

The Scottish Executive's Strategy

The Scottish Executive's solution to the broadband dilemma was outlined in its recent strategy statement, Connecting Scotland: Our Broadband Future. The Executive sets out its approach as follows:

- Close liaison at a UK level on regulatory proposals and on UK policy developments.

- A programme that will progressively aggregate public sector demand for broadband infrastructure - building out from the needs of schools, local authorities and the health service - with government support centred on areas which would otherwise be demand deficient.

- Identify if there is any need for direct support measures as anticipated under the Highlands and Islands Special Transitional Programme.\(^\text{110}\)

The Executive believes that its purchasing power will stimulate the investment which is needed from the private sector. The partners involved in the aggregated procurement process will include local authorities (for example, schools, libraries, corporate networks), the health service, prisons, and the higher and further education sector. The Executive's aim is to procure connectivity on a zonal basis and has identified two pathfinder areas where it will test this approach, selected
on the basis that the market is most unlikely to meet anticipated demand under current procurement practice. These areas are the Highlands and Islands and the South of Scotland.

By overturning current public sector buying practices and pursuing a joined up approach to procurement so that all major public sector services in an area pool their purchasing power, the Executive is taking a bold step but one which it thinks is necessary to stimulate demand and bring with it the connectivity which Scotland needs now. The Executive states that Scotland must be ready for the “Next Internet which will deliver applications in e-learning, e-government, e-health and e-business”.
Case Study Western Isles

‘The economic and social gains achievable from a robust and all-encompassing broadband roll-out in the Western Isles are of a significance realisable through no other current development policy or initiative either presently tabled or in development. This sector must therefore gain the highest priority amongst policy-makers and decision-makers now, before a clear opportunity is lost.’

In 2000, Western Isles ICT Service in co-operation with a range of other European and Scottish public sector bodies (including the University of the Highlands and Islands) started an exhaustive research project into the possibility and potential benefits of broadband roll-out in the Western Isles. Summing up the analysis of the infrastructure options available, the report states that: ‘Development is about long term quality of life gains and sustainability rather than short-term materialistic gain and it is the former, that a realisable broadband future for the Western Isles could without doubt bring, although not being immediately obvious to many.’ The author adds:

‘Children from an earlier and earlier age are becoming part of the digital information society, often before their parents from our generation. What will retain such children in years to come in remote Islands like ours? - not just the high quality of life, but also the opportunity to earn income in line with their aspirations and attain services from this future broadband society in their home area. A key policy decision now could reverse youthful out-migration within five years, lead to re-population and attract significant publicity, awareness and inward investment.’

The WIICT report argues that there is a striking synergy between development policy for the Highlands and Islands (and presumably other rural areas) and the benefits that broadband can potentially bring. Broadband, it is argued, does not just improve business competitiveness, it also deals ‘directly with social and economic inclusion issues on Europe’s and Scotland’s periphery’. Broadband can, for example, transform education, making it easier for individuals to participate in distance-learning projects. The University of the Highlands and Islands (UHI) has an ongoing commitment to develop outreach distance-learning centres via broadband for video conferencing. It has already spent £22 million on technology to overcome the distance barriers and higher than expected demand for services means that it is trying to upgrade outreach centres off the main grid.
A Case for Substantial Public Investment?

The need for government intervention is a given because, as we have seen in a number of papers, the commercial availability of providing 98 to 100 per cent coverage is difficult for new entrants and even for BT. There has to be some form of mixed public and private financing. We must establish how much money each sector should provide and which is the best model, as each region or country will have different models to achieve the objective.  

Understandably, British Telcos appear to place less emphasis on the need for demand creation if there is concrete government investment on the table. When asked if money from telecommunications licensing were used to invest in broadband roll-out, Graham Moore from BT said:
Almost £23 billion was generated through five third-generation licences [for mobiles] and it would be only sensible to spend some of that money on providing broadband in rural communities. He added: 'If there is provision for infrastructure, we can suggest certain models for competition among users of the infrastructure and providers of services.'

While featuring demand creation strategies as one strand of the solution, the Ovum report recommends a broad strategy that involves sizeable public investment on infrastructure upgrades to solve current problems and ensure reasonable broadband access in the Highland and Islands region. The figure quoted was between £9.5 and £11.5 million.

Taking all this into account, the Enterprise and Lifelong Learning Committee published its long awaited report into the new economy in June this year. The report recognises that much has been done but that there is still a long way to go before Scotland can participate effectively in the new economy. The report recommends:

- an over-arching e-strategy for Scotland;
- the appointment of an e-advocate, to be charged with implementing this strategy;
- development of a Scottish global inter-connector link; and
- selective public investment in telecommunications infrastructures.
BROADBAND ACCESS IN SCOTLAND: MAKING THE MARKET WORK FOR CONSUMERS

Conclusions

Effective and immediate roll-out of broadband across all areas of Scotland is of crucial social and economic importance, and in particular for rural and remote areas. There, the infrastructure is wholly inadequate, broadband provision is patchy to say the least, and remote users are disadvantaged. This is compounded by the speed of change in the technology, the dominance of the incumbent, BT, and the uncertainties about which company can provide which service and at what cost. The prospect of digital exclusion raised by inadequate access to PCs and the Internet for many consumers will become even more of a reality if the infrastructure is not there to deliver the innovative services from which others will benefit and come to see as the norm.

Yet consumers are being left at the mercy of complex market forces and are in the middle of the debate between government and the industry about who kick-starts the roll-out and how. The debate is being dominated by a reluctance of the industry to invest and the view that infrastructure upgrades must be demand led. Government is being forced to balance the risks of waiting for the market to gain its own impetus and for the industry to make the investment when it thinks the gain is worth it, against substituting that investment from the start so that rural and remote areas don’t lose out.

The Scottish Executive has decided to use aggregated public procurement to drive demand for broadband services and to see broadband rolled out more quickly. This will be focused on key areas where demand creation is needed most. There will be additional
funding to help meet the costs of upgraded requirements in these areas. However, while targeted pump-priming is not ruled out, it is not included as a key part of the Scottish Executive’s strategy for broadband.\textsuperscript{119} We think a strategic, targeted approach to government investment in areas of need should have been included and that of regulatory policy support for rural areas, as has happened in the US, is something which the Scottish Executive should raise at European Union level.

We welcome the development of the Executive’s strategy and are supportive of the pro-active measures being proposed to stimulate demand and the parameters within which any government intervention will occur. The first parameter sets out the need to encourage competition as far as possible. This will be a key factor in the successful implementation of the strategy and procurement processes must ensure that this happens and that the advantages which incumbent operators possess do not detract from the onset of a competitive marketplace.

However, while we welcome Connecting Scotland’s aim to “make affordable and pervasive broadband connections available to citizens and businesses across Scotland”, we are concerned that this is being addressed in isolation from and without regard to the overall context of the communications market in Scotland as it affects consumers and as set out in this report. Broadband provision will mean nothing to consumers who can’t take advantage of a competitive market in basic telephony, who can’t, or don’t know how to access the Internet at home, and who can’t access essential public services without going to a public terminal. Effective development of the new economy must have a wider focus than the needs of business. Equally, it must aim to ensure effective and universal participation of consumers in the marketplace.
From the consumer perspective, an attractive option would be the extension of the universal service obligation. However, we are not convinced that this is the answer at such an early stage of the development of the market. While the services to be delivered via broadband will become essential, we are not yet at that stage and the service is not yet used by anywhere near the majority of the population. Extending the USO is constrained by European legislation which does not allow higher levels of service to be funded by industry levy. Therefore, for the time being, government would have to meet the cost of the extension through taxation. This would provide no incentive for companies to make the up-front investment which is needed.

However, this does not detract from the fact that universal access will be of fundamental importance to the economic and social fabric of Scotland. In principle, USO must be extended to include broadband at an optimal time for consumers. This must be kept under continual review.

Recommendations

To the Scottish Executive

13. We welcome the publication of Connecting Scotland, the Scottish Executive's strategy for broadband in Scotland, and agree with the principles it has adopted to accelerate the roll-out of broadband. However, there needs to be more information on how procurement will ensure that competition develops and that the development of the market is not hampered by incumbent monopoly suppliers. The Scottish Executive should identify appropriate outcome measures, progress against which
should be published annually. However, this must be supported by flexible publicly-funded pump-priming which is targeted towards areas identified as having the greatest need, together with appropriate regulatory invention to support development in these areas. Regulatory policy support for rural areas, similar to that in the US, is something which the Scottish Executive should raise at European Union level.

To Oftel, Ofcom and the DTI

14. Oftel's commitment to keep the definition of the universal service obligation under review should pay particular attention to the specific conditions of the market in Scotland. Meanwhile the government should work with the EU to ensure that the future definition of universal service is expanded to include broadband. Oftel's proposed market research to monitor consumer access, preferences and demand in relation to broadband should include separate Scottish figures.

To Oftel

15. Oftel should take all possible steps to ensure that the process of local loop unbundling is accelerated as a matter of urgency.

The continued dominance of BT in Scotland is unacceptable. Oftel must work with BT and the rest of the industry to find adequate solutions so that LLU can develop.
To the DTI/DCMS and Ofcom

16. Ofcom should be given a statutory duty to have due consideration to the needs of people living in rural areas and to low-income consumers.
Chapter 6  Broadcasting in Scotland

THE MARKET

The BBC in Scotland

To a degree, the BBC’s structure reflects regional and national characteristics of the U.K. There is a Nations and Regions division which is responsible for programmes and services on all media for audiences in Scotland, Wales, Northern Ireland and the English regions. This structure - outside the BBC’s hub based in London - has been strengthened over the past two years in an attempt to reflect the reality of the new political institutions of devolution.

That said, the BBC has a highly-centralised management structure that is held accountable by twelve non-executive Governors who are appointed by the Crown. Among them are the National Governors for Scotland, Wales and Northern Ireland. Another Governor has special responsibility for the English Regions. The Governors hold BBC’s management accountable and they appoint the BBC Director General. The BBC is run by an Executive Committee which is made up of seventeen senior BBC Directors. One of them is the Director of Nations & Regions. The Controller for BBC Scotland is responsible to this structure.120

Scotland also has a Broadcasting Council for Scotland and both BBC Scotland and the Board of Governors consult with it and the equivalent for Wales, Northern Ireland and the English National Forum. However, these bodies are only advisory.
BBC Broadcasting in Scotland

BBC Scotland screens between two and three hours of own-produced television each day on BBC 1 and BBC 2.\textsuperscript{121} Reporting Scotland and Newsnight Scotland, which was produced as part of a £10 million 'devolution package' announced by the BBC Board of Governors in response to political devolution, are the two flagship news and current affairs programmes.

BBC’s radio network in Scotland is different from that organised elsewhere. Instead of small local stations (there are 36 in England), Radio Scotland was launched in 1978 and has offered Scotland a national radio service which makes almost all of its own programmes across the range of genres - 6,596 hours of output in the 2000/01 season.\textsuperscript{122} It has a share of nine per cent of all radio-listening with a reach of 22-25%.

The BBC is extremely important for the Gaelic community. While Radio Scotland has a reach of around 25% per cent in Scotland as a whole, Radio non Gàidheal has a reach of around two thirds among Gaelic respondents. The station broadcasts just under 1,900 hours of output every year and the Gaelic news service - A’ithris no Sàdhainn - was strengthened through part of the devolution package. The BBC also produced 21 hours of Gaelic television in 1999-00 with the flagship programme being the news and current affairs package Eorpa.

BBC Scotland Online

In the season 1999-00, BBC Scotland had its own Home Page launched. This is accessible via the highly-rated BBC site. The Broadcasting Council for Scotland wants to see the 'vigorous development' of the
The site has dedicated news pages and a link to a new Gaelic site which includes interactive children's pages, daily news bulletins, a learners' section, cultural listings, a forum section and information on programming. The site continues to be popular with viewers, resulting in an average 600,000 hits in 2000/01. The BBC views BBC Scotland Online as its third broadcasting medium.

**In Context**

Whatever the current strengths of the national and regional structure of the BBC, it is an inescapable fact that London dominates BBC's television and radio production. Financially too, the BBC is dominated by an administrative and production hub based in London. Of the 8,776 hours of networked television output produced by the BBC in the year 2000/01, 7,259 hours originated in London. Scotland produced 217 hours.

Following the referendum in September 1997, demand grew for a decisive BBC response to the conclusive vote for political devolution. Since most domestic policy was to be decided in Edinburgh, and not London, it was argued that the case for devolving a prime-time news programme was strong. The debate focused on the question of a Scottish Six, the idea being that BBC Scotland should produce its own early evening news show covering Scottish, UK and world affairs. It would reflect the fact, it was argued, that in the light of devolution, a new set of priorities had been created which news broadcasting would need to take account of. The idea had widespread support among BBC staff in Scotland, among politicians and among the public. The Broadcasting Council for Scotland supported the proposals.
The BBC Governors were not convinced however. It was agreed that the UK-wide Six O’Clock News would remain, that the 6-7pm hour would reflect the whole of the UK more comprehensively, and that staff would be trained to be more alert to the differences between the nations. In December a £21 million investment in programming was announced to allow an effective response to devolution. In programming terms, highlights from the devolution package include: Holyrood and Holyrood Live - a political news programme screened mid-afternoon; the new look Six O’Clock News and Reporting Scotland which does not represent a scheduling change; Newsnight Scotland which is an opt-out section of the main programme screened at 11pm for twenty minutes; the Kirsty Wark Show which is a lighter ‘magazine’-style current affairs programme screened on Friday evenings. The BBC now includes news headlines from Scotland, Northern Ireland and Wales in the national six o’clock news bulletin. The main editorial eye is still based firmly in London.

There is an argument over whether the BBC decision on the Scottish Six can be a stable solution and whether it gives people in Scotland the analysis of Scottish politics that they want.

‘In due course I can see there being both citizens’ demand and political demand for improvements. Having a few minutes of Scottish Newsnight is not the answer. It’s not peak programming and therefore it is not providing the service that most Scottish people would want.’

Independent research would support this view. In 1998 a Sunday Mail poll among five hundred people in Scotland found that more than sixty per cent supported the introduction of a BBC Scotland Scottish Six. Support reached seventy per cent among 25 to 34 year olds. A week later a bigger poll carried out by System Three for the Herald found...
that 69 per cent wanted 'their main early evening broadcast to be
produced in Scotland after the advent of the Scottish Parliament'. Just
twenty per cent thought it should continue to be delivered from
London. The poll found there was majority support for a Scottish Six
among supporters of all political parties.

BBC Scotland has also pointed out that the current Scottish TV news
programmes are extremely popular. Although viewing figures between 6
and 7 pm are erratic, there is a clear trend which shows that Reporting
Scotland and the ITV equivalents are more popular than the main UK
news bulletins.

BBC Network Content

In many ways the very public row over the question of a Scottish Six
dominated the debate about how the media should respond to political
devolution. Yet, from the perspective of the Scottish consumer, there are
further fundamental questions about the organisation of broadcasting in
Scotland and how their interests can best be served. The Scottish Six
debate obscured the wider issue of the imbalance in investment in
programme-making between London and the UK nations and the
regions of England. Arguments that BBC output in Scotland does not
reflect Scottish culture and the Scottish news agenda well enough, might
carry less weight if more programmes produced by BBC Scotland were
screened on the BBC network. However, as we have seen above, the
BBC’s output is dominated by its London base.

Concerns about the dominance of programming produced in London
has been a long-standing policy of the SCC.
'What is needed in our view is programming from Scotland, which ranges widely in content and locale. Perhaps some of this material could be made exclusively for Scottish viewers, but we believe that it is much more important that the proportion of programming on the networks which is made in Scotland - and in the other countries and regions of the United Kingdom - is increased.'

In the past, the BBC has responded to these arguments by stating that Scotland, and the other nations in the UK, are net gainers as the total cost of the services provided to Scotland is greater than the amount raised by the licence fee. This line of reasoning has been exposed as weak for a number of reasons. Firstly, any national organisation based in one location inevitably means a redistribution of resources. Secondly, the dominant centre of production (in this case London) benefits enormously from the concentration of creative talent. Conversely, the fact that so little programming is sourced from Scotland denies Scotland a proportionally-sized production hub that would only benefit Scotland's creative industry and ultimately benefit the Scottish consumer. Thirdly, it has been argued that if more production were to be redistributed away from London then the overheads would be less and therefore the cost of providing services to areas outside London is overestimated. Lastly, the economics of the BBC can be viewed from a different angle. Only a proportion of licence fee money raised in Scotland is actually spent in Scotland. It can be argued that the balance is skewed too far towards London to the detriment of BBC Scotland especially now with political devolution a reality.

The BBC has responded to the criticism levelled at it over the Scottish Six by pointing out that the reality of digital television and the BBC's commitment to improving choice with the launch of more channels means that the broadcasting environment has changed dramatically.
'I would like to see a much more sophisticated discussion about news provision in this new environment. I think it would be an arid kind of thing to have another public debate about a Scottish Six as if the last three years haven't happened. People wouldn’t be debating the real issues of how you can get the best news coverage in a devolved Scotland. If we could have that debate without calling it the Scottish Six part two then I would feel much happier.'

The BBC stresses that the £10 million 'devolution package' announced in 1998 was only part of its response to the ‘changing UK’; that £10 million was agreed as a contribution to BBC journalism north of the border and that equally important packages are in the pipeline aimed at improving local programming and drama. Overall, it claims that the funding packages represent the biggest investment in BBC Scotland’s history and that, while the issue of the journalistic response to devolution is still 'on the table' and open for debate, BBC Scotland’s strategic priority is now to increase investment in entertainment and drama.

The most recent BBC Annual Report gives details of these funding packages. A commitment to improving services in the light of devolution remains a key objective of the BBC. Funding for BBC Scotland has indeed risen by £26 million over the last two years and is expected to increase by another £40 million in the current year to a total of £160 million. However, we note that the additional investment in Scotland, although significant, must be set within the overall UK context of plans to invest an additional £265m in services over the next two years.

The BBC and the White Paper

A New Future for Communications has preserved the independence of the BBC. That said, there is evidence that the government would like to see
Ofcom having some kind of remit to comment on BBC’s overall direction and performance. The White Paper states: ‘Ofcom will report periodically on the key cross-industry issues of public service broadcasting and we would expect Ofcom’s advice to be published. The BBC’s Board of Governors will naturally want to consider observations made by Ofcom in drawing up the BBC’s annual statement and all other broadcasters will be expected to undertake a similar and formal process.’

However, there are other references to how the BBC will be held a little more accountable. A new requirement is to be introduced that will require the BBC to provide a news and current affairs programme at peak-time. Furthermore, as described in more detail below, the White Paper states that the regional dimension of PSB should be retained ‘as a counter-balance to the possible further consolidation of ITV’. This emphasis on regionalism is also extended to the BBC. The White Paper states: ‘We also want to see other public service broadcasters increasing their commitment to the regions. The BBC currently sets its own targets for regional production against the background of its Charter obligations. We want to see demanding targets. Ofcom will be responsible in future for both agreeing and monitoring BBC’s compliance with these targets.’

In examining the approach taken by the BBC towards the Scottish Six debate, it is interesting to look at how the thriving print media market works in Scotland. It can be argued that the fact that people in Scotland support a selection of Scottish national daily and Sunday newspapers is proof of demand for news produced and edited in Scotland that reflects a Scottish agenda and a Scottish perspective on the world.

The Daily Record has the largest ‘regional’ circulation (600,684) of any morning paper in the UK followed by The Herald and The Scotsman which are both in the top ten. So buoyant is the Scottish national
market that there even appears to be room for niche titles. Business am was launched in 2000 and has secured a readership ahead of target.

'It is very clear that Scottish consumers - when given the choice between UK and Scottish produced papers, on the whole choose either Scottish papers or Scottish editions of UK papers with relatively few exceptions. I think that is a consumer choice which you can quite reasonably assume is related to regional and national ideas of identity.'

COMMERCIAL TELEVISION

Channel 3

Channel 3 is a legal term used in legislation and for all practical purposes it is ITV. ITV is made up of the fifteen regional television licensees and the national GMTV breakfast station. There are three regional licensees that cover Scotland: Grampian, which covers the north of Scotland; Scottish Television, which covers the central belt and parts of the south of Scotland, and Border Television which covers the Borders area and the north of England. The franchises were awarded by competitive tender in 1991 and run for a ten-year term which started in 1993.

In order to meet the public service broadcast requirements, the ITC regulates the companies to make sure that specific 'positive programme requirements are met'. The main programme requirements which must be met include:

- 65 per cent of the hours of programming must be originally produced or commissioned;
- a majority of the transmission, except news, sports events, games, advertising and teletext, must be of European Union origin;
• at least 25 per cent of qualifying programme submissions in the service must be independent productions;
• by 1998 at least fifty per cent of programmes were to be subtitle for the deaf and eighty per cent by 2004;
• the licensees must ensure diversity by including different programme genres;
• there is a general requirement for a sufficient amount of high-quality programmes which 'might include programmes of marked creative originality or of exceptionally high production standards';
• they must take news from a nominated news provider (currently ITN) and broadcast the news live and simultaneously;
• minimum requirements are also built into the licences and provide for a minimum number of hours per week for 'mandatory' programme strands. These are current affairs, children's, religious and regional. The minimum amount of time for regional programming varies from region to region but at least eighty per cent of this production must be made within the region.

**Regional Requirements**

In the context of this debate the most important positive programme requirement is that requiring regional programming. The ITC states that Section 16(2)c of the Broadcasting Act 1990 'requires the regional Channel 3 to give "sufficient" amount of time to a suitable range of regional programmes (including news) which are of particular interest to people living in the area'. When the franchises were put out to competitive tender in 1991, the ITC made it clear that the 'provision of a strong regional service was an essential part of licensees' responsibilities.'
The definition of regional programmes was described in detail by the ITC in 1997. While this output should reflect regional or sub-regional events, concerns and interests, it stated that this did not mean 'that every item within a programme must be so specific to the licensed area that it would have no interest or relevance at all elsewhere'. However, in judging whether a programme could be described as 'regional' the ITC said it would judge the extent to which the programme:

- dealt with subject matter of particular interest to the region/sub-region and of less interest elsewhere;
- is clearly set within the region or sub-region;
- shows people who are known, or demonstrated, to be residents of (or to have close connections with) the region/sub-region;
- has other qualities and characteristics which are distinctive to the region or sub-region.

These regional programmes must include news. Minimum numbers of hours are laid down and incorporated into the licence conditions. Currently the minimum of regional programming required by the ITC is eighteen hours thirty minutes for Scottish Television per week and eight hours 48 minutes per week for Grampian.

**Scottish and Grampian**

One of the most significant events to occur in commercial television in Scotland was the merger between Scottish Television and Grampian in 1997 with both ITV stations in Scotland falling under the ownership of the Scottish Media Group. This merger resulted in what the ITC has described as 'fierce criticism' of Grampian's output in 1998, coupled with widespread claims that this change of ownership was eroding Grampian's regional identity. Even so, the ITC said it found 'no good evidence of
which the ITC is aware that Grampian's regional identity and focus have lessened.

One clear consequence of the merger was the increase in pan-Scottish scheduling through Grampian and Scottish co-productions. These included The Way it Was, Scottish Action and Scottish Passport.

Grampian produces 54 minutes of Gaelic material every week and Scottish 30 minutes, with this amount boosted by more than two hours by Gaelic Broadcasting Committee-funded programming.

Scottish has the highest requirement of any ITV licensee for regional eighteen programmes - more than 1 hours. The ITC has noted that Scottish has increased resources to respond to political devolution by committing more resources to news and current affairs. Overall, ITC concluded that in 1999 Scottish met its licence requirements 'with a broadly satisfactory range of local output'.

Channels 4 and 5

Channel 4 was established to deliver innovation, diversity and originality on a UK-wide basis to balance the output from the BBC and ITV. From a fragile start it has gradually built ratings of around ten per cent. It has held onto a sizeable share of the total audience even with the launch of Channel 5.

In response to the debate about the White Paper Channel 4 stated: 'We are strongly in favour of Channel 4 remaining a public service broadcaster with a remit which provides both complementarity and competition to BBC, the ITV companies and Channel 5'. In the few years since it was launched it has attracted around five per cent audience share and £200 million in advertising revenue. Channel 5 is currently of minor significance in the
debate about the future of public service broadcasting. However, this could change dramatically under proposals contained in the White Paper to strengthen Channel 5’s public broadcasting service remit.

Commercial Radio

One company - Scottish Radio Holdings, dominates commercial radio in Scotland. It owns:

Clyde 1 FM, Clyde 2, Forth FM/AM, Moray Firth, Northsound 1/2, South West Sound, Tay AM/FM, West Sound AM, West FM and Score Digital. It also owns Cool FM and Downtown Radio in Northern Ireland, and a clutch of local newspapers.

Given the absence of a local BBC radio network, the main commercial stations in Scotland are extremely popular. In December 2000, for example: Clyde FM 1 had a reach of 41 per cent and a share of listening of 24.7 per cent; Forth FM had a reach of 33 per cent and a share of listening of 16.9 per cent; and, Moray Firth Radio had a reach of fifty per cent and a share of 26.6 per cent. All these stations reach more people and have a higher share of listening than any of the BBC network radio stations.

To put these figures into context, for the same period Radio Scotland had a reach of 24 per cent and a share of listening of ten per cent. Overall, BBC local radio in the UK as a whole has a reach of 21 per cent and a share of listening of twelve per cent.
Digital Television

The government claims digital television will ‘transform the family set’. 'It is potentially a bigger change to our viewing experience than the move from black and white to colour.' Apart from the fact that the picture and sound quality is dramatically better, digital television can bring viewers hundreds of different channels. The technology also brings the potential for interactive services which will, the government says, turn the television into the information and entertainment centre of the home.

The government is absolutely convinced about the digital revolution and has committed itself to switching off the analogue network by 2010. However, it has also made a number of commitments about the analogue service to make sure principles of universal access are maintained. The analogue network will not be shut down until:

- everyone who can currently get the main public service broadcasting channels [99.4 per cent of the population] in analogue form can receive them on digital systems;
- switching to digital is an affordable option for the vast majority of people; and
- as a target indicator of affordability, 95 per cent of consumers have access to digital equipment.

The government has stated that it expects these commitments to be met by between 2006 and 2010.

Consumers can access digital television in three ways. Firstly, it is available via BSkyB digital service. The digital satellite receiver equipment comes with a digital satellite dish aerial. Secondly, digital television can be accessed via digital terrestrial television which can be
accessed via digital terrestrial television which can be received through existing TV aerials. Digital transmission is not universal, however, and, perhaps predictably, coverage is particularly bad in many parts of rural Scotland. Thirdly, in areas where cable TV has been rolled out, digital television is available via cable. Consumers can access free-to-view services if they can use their existing aerial or if they install a digital satellite receiver. Cable TV requires a subscription. Free-to-view public service broadcast channels currently available on the digital platform include:

- BBC 1
- BBC 2
- BBC Choice
- BBC Knowledge
- BBC News 24
- BBC Parliament
- ITV
- Channel 4
- Channel 5
- ITV2
- S4C
- S4C2
- ITN News Channel
- Digital Teletext
- BBC Text

Will the Targets be Met?

There is a heated debate about how cable is being rolled out, whether the services and channels available are proving attractive, and if the 'vast majority' of people will have access to the technology within the timeframe outlined by the government. In May 2000, the ITC, Oftel and the Office of Fair Trading (OFT) jointly issued a consultation paper titled 'Availability, Affordability and Accessibility of Digital Television' and sought comments for a subsequent report to government on the development of digital TV. The final report based on this consultation argued that the take-up of digital TV 'represents a major international success story' which has partly been due to significant investments from companies such as BSkyB, ITV Digital and Telewest in providing free
equipment to consumers signing up for subscription pay-TV packages.\textsuperscript{149}

Even so, despite this early success the report concluded that industry forecasts predict that take-up is likely to fall far short of the 95 per cent target set by the Government. The report identified the main ceiling being the number of consumers who are interested primarily in receiving existing free-to-air public service broadcast channels, as opposed to pay-TV or interactive services.\textsuperscript{150}

The sticking point with digital television is that consumers must proactively choose to switch to digital with all the associated costs. These costs include: a new digitally-compatible television or a set-top box linked to an existing television; and installation costs with some systems. The report found that receiver equipment costs are not seen as a barrier to digital take-up for viewers interested in pay television. This is due to the subsidies offered linked to pay-TV subscriptions. On the other hand, however, the costs are a potential barrier for those consumers in receiving free-to-air public service broadcasts.

Consumers can buy a set-top box to receive the digital free-to-air services. However, 'unsubsidised' set-top boxes are priced quite highly (several hundred pounds) and there is no consumer incentive to purchase a box for free-to-air use. It has also been suggested that retailers have more incentive to gain commission from pay-TV sales than to provide information on free-to-air reception.\textsuperscript{151} The report suggests that a fully installed satellite set-top box without subscription or connection to a telephone line would cost around £365.\textsuperscript{152}
The alternative to buying a set-top box is to purchase an integrated digital TV - but these are significantly more expensive than ordinary analogue TVs. For many consumers, therefore, the switch to digital would represent the cost of an expensive new TV - roughly between £600 and £700. Furthermore, many households have more than one TV and all non-digital sets will be useless following analogue switch-off. Although consumers have greater choice of free-to-view content and can access digital television without a subscription fee, take-up therefore remains slow. Only around one fifth of the population of the UK has opted for the service\textsuperscript{153} and the penetration rate of twenty per cent for Scotland reflects the UK trend\textsuperscript{154}

The Chief Executive of Channel 5, David Elstein, argues that digital terrestrial television has proved less effective than predicted and the costs of rolling it out to cover more than ninety per cent of the population are prohibitive. He says cable TV coverage is even more limited and that while satellite has extensive coverage, it cannot provide signals for portable televisions. Worse still, the market for portable televisions has expanded because of the price gap between analogue and digital equipment. Furthermore, he says, most consumers will be left with video recorders that can no longer record when a different channel is being watched - yet another reason not to jump to digital. Overall, consumers are proving far more reluctant to spend the money necessary to purchase the new digital equipment than most in the industry predicted. As a result, David Elstein predicts there may never be an analogue switch-off\textsuperscript{155}

There is evidence to support Elstein's arguments. Portable TVs can be bought for less than £100 and the cost of integrated TVs is not likely to 'erode' until 2006\textsuperscript{156}. Set-top aerials are unreliable and commercial operators are unlikely to subsidise second or third set-top boxes to cover
numerous portable TVs in the same household. Oftel, ITC and OFT also note that portable TVs are most likely to be found among those in rented accommodation, the elderly and the socially-disadvantaged. This report also concludes that 'no manufacturer has so far produced a VCR product with a digital front-end that would allow recording of digital transmissions without restriction whilst the TV was in use for viewing another channel'.

Given the problems identified with slow take-up, many have argued there should be some form of subsidy to encourage those only interested in free-to-air channels to switch to digital. They argue that this would bring forward the time when the government's targets would be met and ensure universal access. This suggestion has been firmly rejected by Oftel, ITC and the OFT. They argue that this option would be costly, it may lead to wealthier homes with multiple TVs receiving a greater subsidy than households with only one TV and that the scenario may favour one technology over another. Perhaps most ominously from the consumer's point of view, many from the industry perspective argue that slow take-up could be solved if the government set a firm date for analogue switch-off. They argue that viewers who only want free-to-air have no incentive to switch to digital when they currently receive analogue services for free. So far, Oftel, ITC and the OFT have resisted this argument stating that it would effectively force consumers to buy new receiving equipment against their wishes. Currently, their advice to government is that a firm date is 'not appropriate at this time'.

**Digital Radio**

As with digital TV, digital radio offers vastly improved sound quality with the added advantage that users do not need to retune when travelling. The radio spectrum is also used far more efficiently and therefore consumers should have access to a wider choice of channels.
Digital Radio is organised so that several digital programmes and services can be carried in one block of frequencies called a ‘multiplex’. Each multiplex can carry a mixture of stereo and mono broadcasts and data services. Seven have been allocated in the UK - one for BBC national radio, one for national commercial radio (awarded to Digital One) and five for local radio in England and national radio stations in Scotland, Wales and Northern Ireland (BBC and Commercial).

The BBC has invested heavily in digital radio and all the BBC national radio channels are now available to the sixty per cent of the population that can access digital. However, digital radio coverage in Scotland is particularly poor as only parts of central Scotland are covered. There is no coverage north of Fife or near the border with the whole of the populated east coast north of Edinburgh missing out. There is no coverage in the Highlands and Islands and most of Dumfries and Galloway.

Commercial digital radio is dominated by Digital One. It broadcasts the three existing national commercial stations, Classic FM, Virgin and TalkSPORT. There are seven new channels including ITN’s rolling news service, talkMONEY, oneword (a talk station), and four music stations. Regional multiplex licences are currently being awarded.

Commercial Television, Devolution and Consolidation

A key proposal in the government White Paper on Communications is to abolish the fifteen per cent limit on share of TV audience. This effectively opens the door to further mergers and takeovers as the major ITV franchise companies seek to consolidate. In responding to the White Paper the ITC said: ‘The ITC agrees that the potential benefits for further ITV consolidation, subject to competition safeguards for the TV
advertising market, outweigh concerns about plurality of ITV ownership.  

The motivation to secure ever-bigger slices of advertising revenue has fuelled merger and takeover fever in the commercial television sector. Over the past few years there has been unprecedented activity as media companies have taken on a predatory role in an effort to avoid being the next takeover target. Business manoeuvrings have been complex and hostile with the result that only two companies now dominate the ITV network and commercial terrestrial television - Carlton Communications and Granada Media. A merger between the two is widely expected.

'I think 18 months to two years is a sensible timeframe."...Granada believes that there is a further £50 million pot of gold to be achieved once a single company is allowed to run ITV.'

One company dominates commercial television in Scotland - the Scottish Media Group which owns Scottish and Grampian.

Yet this is not the only issue that may have a profound impact on the media industry in Scotland. The White Paper sidestepped the potentially explosive issue of cross-media ownership in the UK and instead invited comments on changing these rules.

Cross-Media Ownership

Current rules prohibit any single newspaper owner with more than twenty per cent of the national market from owning an ITV, Channel 5 or commercial radio franchise. Similar rules prevent one company that owns one or more local newspapers with a combined market share of twenty per cent in a Channel 3 region from holding a licence to...
provide that regional Channel 3 service.

SMG also owns The Herald newspaper, one of Scotland's biggest-selling quality broadsheet. It also owns the Sunday Herald. Other media interests held by SMG include a 25 per cent holding in GMTV, Virgin Radio and Pearl and Dean. It acquired the Ginger Media Group in March 2000 which 'strengthened the group further, creating a move into the high-growth radio sector, while elevating our ranking in UK network television production.' This is how SMG described its business in Scotland in 2000:

'SMG's position in Scottish media is unrivalled. Our ownership of the two main ITV franchises serving Scotland, and three of the country's most influential newspapers, results in the group's products reaching almost every home in Scotland.'

SMG's its peak-time audience share of both Scottish TV and Grampian TV was 37 per cent in 2000/01.

In February 2001 SMG extended its holding in Scottish Radio Holdings - the company which dominates commercial radio north of the border. SMG now has a 24.9 per cent stake in SRH. It is widely assumed that SMG will mount a full takeover bid as soon as it can. Current cross-media rules prevent one company holding a licence to provide a local radio service from holding a licence to provide a regional Channel 3 service whose coverage area is to a significant extent the same. This means SMG cannot yet make a formal bid. However, it is widely assumed that legislation following the White Paper consultation will see this rule on Channel 3 and local radio ownership scrapped.
If SMG were allowed to take over Scottish Radio Holdings it would be possible, and perhaps even likely, that a sizeable proportion of Scots in the central belt might get through a whole day listening and reading news produced entirely by SMG.

**A Threat to Regionality?**

However, both the row over proposals for a Scottish Six and the proposed relaxation of media ownership rules signal a much wider debate about broadcasting policy response to devolution. On the one hand, the White Paper seeks to allow mergers and takeovers with the possibility that there may be just one ITV company covering the whole of the U.K. On the other hand, the government has said that it is committed to 'maintaining diversity and plurality' and building competition.

'There is a central contradiction running throughout the document which is that you can somehow sustain regionality but also concentrate ownership.'

As detailed above, the government proposes to scrap the rule preventing any one company from having a fifteen per cent share of the TV audience. A desire to allow further consolidation among ITV companies appears to be the motivation for this move and the ITC too has argued that the rule is too restrictive to strike a balance between 'a dynamic market and plurality of ownership'.

However, some speculate that the main motivation is the creation of a U.K. 'champion'. The White Paper states that further consolidation 'could have the benefit of streamlining the strategic decision-making process within ITV, and promoting the international standing of ITV companies'.

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The problem with a takeover of this kind is that to take advantage of consolidation the rationalising of production makes economic sense. It also makes economic sense to cut the number of hours you commit to regional production and increase the proportion of networked hours. In short, it can be argued that the economics of consolidation works against the principles of public service broadcasting for the UK nations (and the English regions).

The ITC says there will be safeguards to protect regional identities. 'We're asking all the ITV companies to publish their plans for the next year in terms of programming,' says Head of ITC in Scotland Alan Stewart. 'We expect these to take account of the national culture of Scotland, the spiritual life of both central and north Scotland, the political developments. The safeguards are there, but while they might not prevent a change in ownership, they do represent a reasonable defence of Scottish broadcasting'.

How the government intends to strengthen regional broadcasting is not clear. Instead, it says the government wants to 'encourage a debate among broadcasters, independent production companies and citizen groups at local and regional level about how regional programming could be strengthened and developed, particularly using the potential of new technology to foster innovation.'

Recognising the potential impact that further takeover activity could have on regional output the government says the 'regional dimension of the ITV network will be retained as a 'counter-balance' to the possible further consolidation of ITV'.

The White Paper states that Ofcom will have the power to strengthen regional obligations whenever licences change hands and that Ofcom will have a duty to ensure compliance with public service broadcasters' regional programming obligations.
The ITC wants the government to go far further however. It proposes that there should be a Charter for Nations and Regions which includes specific targets set by Ofcom for regional production, an ‘out of London’ network production target and minimum hours of output within each region for news, current affairs and regional diversity. It also argues that Ofcom should have the powers to require the appointment of local independent Chairmen and a local MD for each ITV franchise. Furthermore ITC states that:

‘... we suggest that Ofcom should be given a statutory objective of promoting regional diversity and production, to provide the necessary underpinning powers to give effect to the “Charter for the Nations and Regions”.’

Public Service Broadcasting in Scotland

It is frequently argued that with the development of digital broadcasting and the Internet the role of Public Service Broadcasting (PSB) will diminish. The market, it is argued, will respond to all tastes and demands and niche channels will be created to satisfy all kinds of market segments - including regional interest. We don't have public service newspapers - why should we have public service television, radio or Internet services?

The government and most independent commentators have now rejected this view. A New Future for Communications puts it this way: ‘The government believes that we will continue to rely on public service broadcasting for one clear reason - it works... public service broadcasting remains the best way we have yet found of creating a wide range of UK-made, original programmes of the kind people want. The public service broadcasters still command 61.6 per cent of the total audience in multi-channel homes and seventy per cent in peak time.'
When the government launched its consultation before publishing A New Future for Communications it commissioned a number of discussion papers on communications issues. One of them was on the future of PSB by Andrew Graham of Balliol College Oxford. He argues that public sector broadcasting has three essential features. Firstly, it has purposes that are different from those of the market. Secondly, these purposes - in particular, to inform, to educate and to entertain - apply across all genres. Thirdly, it must be free at the point of use for everyone.

'The final and most important reason why public service broadcasting is required is that, in a democratic society, it is undesirable that the mass media should be entirely in private control... Possibly even more fundamentally, in democratic societies, individuals have rights and these rights include the right to basic information about how their society is governed, what are the laws of the land, etc. For these rights to have meaning, such information should be free, not sold for profit via the television or the PC.'

The fundamental question for Scottish consumers is whether the BBC's changes in response to devolution and the plans detailed in A New Future for Communications for commercial broadcasting will make sure PSB north of the border will meet these challenges.

In 1999 Schlesinger and Tambini argued that:

'To date, broadcasting's solution to the problem of British diversity has taken two main directions. Either it has been centralist and, until very recently, has seen nations as simply another kind of region (so-called 'national regions'). Or it has been regionalist and divided audiences according to franchise areas that have cut across national realities.'
It is difficult to see how broadcasting in Scotland can break from this mould without a more radical rethink of how broadcast journalism should respond to political devolution. News and current affairs content produced in Scotland take on a new significance as executive power over a wide range of issues now resides in Edinburgh and not in London. For people in Scotland the main focus of political debate is now the Scottish Parliament.

As we saw above, it is the duty of PSB to provide an open and balanced public debate and to act as the main forum within which society discusses its disagreements. It is difficult to reconcile these tasks with the level of devolved journalism so far offered by the BBC and the commercial PSBs. The degree of support for devolved news was evident in the near consensus that backed the BBC Scotland proposal for a devolved Scottish Six.

**BROADCASTING: MAKING THE MARKET WORK FOR CONSUMERS IN SCOTLAND**

**Conclusions**

In our view, there have been few signs up until now that broadcasting has responded to the realities of political devolution. The Communications White Paper gives us cause for concern in relation to some of the proposals for broadcasting. However, the prospect of legislative change also presents real opportunities to get it right for Scotland.

Part of the role of public service broadcasters is to help inform the democratic debate. Executive power over a wide range of issues affecting consumers now resides in Edinburgh and this should have led
to a radical change in the way public service broadcasting is organised in Scotland. Simply put, the Scottish Parliament and policy issues that are decided in Scotland do not have a strong enough profile on programmes broadcast north of the border. We would also expect Scottish news programmes to provide a Scottish perspective on UK, European and international issues.

The Scottish Six debate is in the past. Our concern here is not about what decision was taken by the BBC but how that decision was arrived at by the BBC Governors and against the advice of the Broadcasting Council for Scotland, BBC staff in Scotland and the wider community. In our view this raises particular issues about the BBC’s accountability in Scotland which will not be helped by excluding the BBC from independent regulatory control by Ofcom.

Eight years after we first highlighted the low commitment to investment in programme-making in Scotland by the BBC, we welcome the recent investment in this area and look forward to seeing evidence of continuing investment which reflects adequately the personal investment made by consumers in Scotland through the licence fee. We welcome the fact that a commitment to improving services in the light of devolution remains a key objective of the BBC. However, we note that the additional investment in Scotland, although significant, (£26m over the last three year and another £40m in the coming year) must be set within the overall UK context of plans to invest an additional £265m in services over the next two years.  

The White Paper seeks to defend regionalism but gives the green light to greater consolidation in the commercial sector. Consolidation and any further relaxation of rules on cross-media ownership will have
particular implications for the market in Scotland. Any future assessment of the merits of consolidation at UK level may fail to take account of the political and cultural diversity of Scotland.

There are key issues for Scotland in relation to digital in rural and remote areas and analogue switch-off. Ninety-five per cent of the UK population with access could, in theory, pass the government's threshold for switch-off but leave large tracts of rural Scotland with no television. This is another area where complex technology is moving ahead quickly - we have real concerns about affordability and about standards, information and redress.

**Recommendations**

**To the BBC**

17. **The BBC's level of investment in programme-making in Scotland and the proportion of programming on the networks which is made in Scotland should reflect, and be able to demonstrate, the investment being made by consumers in Scotland through the licence fee.**

We welcome the current rise in investment but consumers in Scotland will need to be re-assured that it will be sustained in the longer term through a strategy which aims to ensure that investment levels are based on Scottish population levels and income from the licence fees paid by Scottish consumers.

18. **The BBC should review its governance in Scotland.**
We believe that there are lessons to be learnt from the BBC’s handling of the Scottish Six question and the degree of its accountability to stakeholders in Scotland.

To Ofcom, the BBC and Commercial Television Companies and the DTI/DCMS

19. There should be a statutory requirement for Scotland to have a devolved peak-time national news programme to reflect the fact that executive power over a wide range of issues affecting consumers now resides in Edinburgh and also to provide a Scottish perspective on UK, European and international issues.

To Ofcom and DTI/DCMS

20. Consideration of consolidation in the commercial sector and any future relaxation of cross-media ownership rules should include an impact assessment of the effects on the market in Scotland and in particular the effects on regional identity, plurality and choice.

21. The proposals in the White Paper to protect regional identities should be strengthened. As an absolute minimum, the government should adopt the safeguards for regional programming proposed by the ITC, including a requirement that proposals for mergers or takeovers should include targets for maintaining regional plurality which would form part of any licence agreement.
22. If Ofcom is to fulfil its commitments to regional broadcasting in Scotland, then it will be essential for it to have an office in Scotland.

To the government and the Scottish Executive

23. The future regulation and governance of the BBC should be subject to a review by Parliament.

We are aware that the BBC was subject to a review by the House of Commons Select Committee on Culture, Media and Sport in 1999. However, we do not see this as justification for excluding the BBC from the new regulatory regime. As we have said above, we have concerns about how accountable the BBC Board of Governors are to Scottish stakeholders. There is a conflict between the Board having responsibilities to put out programmes and to regulate what they themselves do.

We agree with the House of Commons Select Committee:

'By failing to provide for an integrated approach by the new regulator to all broadcasters including the BBC, the government has left a large amount of unfinished business.'

24. The Scottish Executive, in conjunction with the DTI, should carry out a major public education campaign on digital television in Scotland, accompanied by measures to promote industry standards and improve information on products.
In the run-up to analogue switch-off and in an attempt to increase take-up, there needs to be a visible campaign organised for the Scottish market and aimed at the Scottish audience, accompanied by the development of high standards and good practice in customer service in the industry.
This report shows that there is a clear Scottish communications agenda. Many of the problems we have highlighted are distinctive to Scotland and require solutions debated, discussed and formulated in Scotland. For example, the best way to improve the rate of Internet access in deprived areas is a matter for Scottish policy. Broadband roll-out in rural areas in Scotland is a crucial issue that cuts across a range of responsibilities that reside in Edinburgh. It is also time that public service broadcasting properly recognised the realities of political and cultural borders. The proposals for public service broadcasting proposed in the White Paper may not be the best option for Scots as consumers or citizens.

How then does the White Paper propose to make sure that the voices of those in different parts of the UK will be heard when these issues are debated in the offices of Ofcom? How too can we ensure that the consumer voice is articulated in policy discussions within Scotland?

A New Future for Communications proposes to establish a new consumer panel to advise the regulator. "It will be able to research consumer views and concerns on service delivery, represent these concerns to Ofcom and other relevant bodies, and publish its findings and conclusions." The panel is to be semi-autonomous from Ofcom and independently appointed. It will be required to take due account in its work of the views of consumers with special needs, including those on low incomes or with disabilities.

There is, in fact, no mention of consumer representation from the UK nations and no recognition that there are issues and problems distinctive to different parts of the UK - different consumer agendas.
The White Paper restricts itself to requiring Ofcom to establish ‘good links’ with relevant policy committees and the executives of the devolved assemblies. It may be that the government considers this safeguard enough to make sure issues relating to the UK nations and regions are heard.

However, we do not believe that this short reference is good enough and want to see regulatory and consumer representative structures for Scotland which have a statutory basis, are built into the system from the start, and which are not subject to the vagaries of political change.

The inadequacy of the White Paper in addressing the implications of devolution has already begun to surface. The existing regulators commissioned Tower Perrins to produce their detailed vision for the structure of Ofcom. This report has now been published and submitted to government as the way forward. It contains no reference to devolution and no structures for dealing with it in practice.

Furthermore, the abolition of the Scottish Advisory Committee on Telecommunications, the ITC and the Broadcasting Standards Commission will dismantle the existing statutory basis for the representation of consumers in Scotland in communications. The White Paper admits that ‘industry lobbies the regulator hard in pursuit of its interests. That is to be expected. But it should be balanced by proper and full representation of consumers’ concerns’. From the perspective of the Scottish consumer, this is lacking in the White Paper proposals.

In the interests of consumers in Scotland it will be essential for both Ofcom and the Consumer Panel to have a physical presence in Scotland. It will also be essential for both bodies to have clear and effective policy relationships with the Scottish Executive, the Scottish Parliament, and
with the range of stakeholders within Scotland. The Consumer Panel in particular has to be able to articulate the policy issues which are important to consumers in Scotland.

We have concerns also about the lack of consumer input into initiatives on digital inclusion and the knowledge economy. We have already stressed the importance of having effective involvement of communities in local initiatives. However, this is not enough. Digital Scotland and other strategic initiatives have focused on businesses and public sector organisations as the “customer” and have failed to recognise the central role played by consumers in creating demand and driving forward a competitive economy.

**Recommendations**

**To the DTI/DCMS and Ofcom**

25. There should be a statutory requirement for the Consumer Panel to establish a Committee for Scotland and to maintain an office in Scotland. Similar requirements should be placed on Ofcom.

Given that there is a clear Scottish communications agenda which cuts across a range of devolved policy areas, it is crucial that the Scottish consumer voice should be heard in the new regulatory structure and on a statutory basis. It is therefore of vital importance that consumer representative and regulatory arrangements incorporate a strong policy remit for Scotland within the UK-wide structure. Moreover, the Scotland Act recognises that public bodies which are accountable to the UK Parliament will continue to be significant in the economic and social life of Scotland. It is therefore essential for there to be
mechanisms for policy-making in Scotland which are sensitive to the needs of stakeholders in Scotland, which have a clear relationship and direct liaison with the Scottish Parliament and the Scottish Executive and which subsequently ensure that the issues which are relevant to consumers in Scotland are addressed at the UK level.

**To the Scottish Executive**

26. **The importance of the consumer perspective should be recognised at strategic level through effective consumer involvement in the formulation and development of policies and strategies for the knowledge economy.**

At strategic level, there has been too much emphasis on the views and needs of business and commerce and inadequate recognition of the pivotal role of consumer demand in competitive markets and economic development.

**To the Scottish Executive and the DTI/DCMS**

27. **The Scottish Executive and the UK Government should develop and publish an integrated strategy for communications in Scotland, taking into account all segments of the market and ensuring that all current policy initiatives are “joined-up”. This strategy should include both economic issues in relation to service delivery and content issues in relation to public service broadcasting.**
We have already noted that the market in telephony is less well-developed in Scotland and that there is still a long way to go before basic levels of access to the Internet can be guaranteed for everyone, particularly disadvantaged consumers. Yet at the same time we are seeing significant investment in the electronic delivery of essential public services and in new broadband technology. The market will only work for consumers if there is an integrated approach to service provision and delivery, particularly in view of the fact that regulation will be carried out at UK level.

In addition to market issues, this report also shows that there is a clear Scottish agenda in public service broadcasting in the light of cultural and political diversity and that, from the consumer perspective, this is not being addressed adequately in either current practice or future UK policy. The Scottish Executive should take the lead in ensuring that public service broadcasting reflects this diversity and meets the needs of consumers and citizens in Scotland.
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