



House of Commons
Committee of Public Accounts

Government preparations for digital switchover

Twenty–eighth Report of
Session 2007–08

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 The organisation and delivery of digital switchover	7
2 Protecting vulnerable people during switchover	9
3 Protecting consumers	12
Formal Minutes	14
Witnesses	15
List of written evidence	15
List of Reports from the Committee of Public Accounts 2007–08	16

Summary

The Department for Culture, Media and Sport and the Department for Business, Enterprise and Regulatory Reform (the Departments) are jointly responsible for digital switchover, the programme to convert over 1,100 television transmitters to digital and switch off analogue signals by 2012. The Departments have asked the BBC to fund a public information campaign to inform viewers about the process and to administer a scheme to help vulnerable groups.

The arrangements for delivering the switchover are complex. The Departments asked the BBC to take a key role in delivery as it had relationships with viewers and delivery experience which they did not possess. The Departments also passed to the BBC responsibility for funding the public information campaign and delivering the help scheme, and set aside £803 million of licence fee money to pay for these activities. They did not, however, specify the outcomes they expected the BBC to secure in spending this money. The BBC is accountable to the BBC Trust for the value for money with which it uses the licence fee, not the Departments. Therefore, the Departments have no means of holding the BBC to account for this use of licence fee money.

The Departments' help scheme and information campaign have been largely overtaken by the independent actions of consumers. Take-up of digital television nationally and among groups eligible for the help scheme has exceeded the Departments' expectations. 55% of those aged 75 and over already have digital television, against the Departments' forecast of 42%. To date, take-up of the help scheme has been significantly lower than the Departments expected. If help scheme take-up rates experienced in Copeland, the first area to switch, were replicated across the country, there would be a £250 million surplus in the licence fee settlement. The Departments have still not decided how any surplus would be handled.

The Departments have not taken effective action to protect consumer interests. Almost half of the televisions sold in the first seven months of 2007 were analogue sets, even though such sets will not be able to receive television signals after switchover without additional costs for consumers. The Departments have chosen to rely on voluntary labelling by the industry, using a 'Digital Tick' logo to inform consumer purchases. However, take-up of the scheme among retailers has been patchy and many sales staff are still not able to explain properly what the logo means. Consumers have not been well-served by this strategy.

On the basis of a Report by the Comptroller and Auditor General,¹ we examined the Department for Culture, Media and Sport, the Department for Business, Enterprise and Regulatory Reform and the BBC on preparations for digital switchover and the protection of viewers and consumers.

Conclusions and recommendations

1. **Take-up of digital television has exceeded the Departments' expectations and, so far, the switchover timetable is on track.** The programme has benefited from strong working relationships between Government and those in the broadcasting industry responsible for its implementation. However, the programme still has four more years left to run. There are still 3.75 million households which do not have digital television and 26 million unconverted analogue television sets. These sets will not be able to display broadcast television after switchover if they have not been converted to receive digital signals.
2. **The Government's decision to use licence fee money to pay for the digital switchover removed over £800 million from Parliament's regular processes governing the allocation and use of public money.** The effect has been to weaken public accountability as the Comptroller and Auditor General can only report on the BBC's use of the sums ring-fenced in the licence fee settlement at the invitation of the BBC Trust.
3. **In passing responsibility for procuring and delivering the help scheme and information campaign to the BBC, the Departments did not take adequate safeguards to secure value for money.** Using the licence fee and partnerships with the BBC and industry to deliver switchover makes sense, given the Departments' limited delivery capacity and experience. However, in doing so they did not:
 - specify the outcomes they required;
 - ensure that the targets set by the BBC and Digital UK were aligned with those outcomes; or
 - build in adequate customer protection to prevent the potential mis-selling of analogue televisions in the run up to switchover.

Passing responsibility to delivery partners without adequate accountability or clarity of purpose puts value for money at risk. The Departments should clarify the outcomes they require to deliver their policy objectives and should seek assurances from the BBC that public money for the help scheme and information campaign will only be spent to deliver these outcomes.

4. **Take up of the help scheme in Copeland, the first area to switch to digital, suggests that demand for the scheme will be much lower than the Departments' forecasts, which look increasingly out of date.** The Departments should review whether the scheme is reaching enough people and achieving its objectives, based on what happens in the Border region, which will be the first full region to switch. In the light of this review, they should amend the design of the scheme and the funds available as necessary before proceeding with switchover in the Granada region from October 2009.

5. **The only evidence of help scheme take-up available to the Departments is from Copeland in Cumbria. If this level of take-up is repeated elsewhere, there would be a surplus of £250 million in licence fee funds ring-fenced for the help scheme.** The Departments have not identified what they will do in the event of a substantial funding surplus, or in the less likely event of a deficit. To promote effective accountability and stewardship of public funds, they should decide, before the implementation of switchover in Granada, how any surplus will be spent or deficit funded.
6. **The Departments have not defined success measures for the help scheme.** The BBC subsidiary company, DSHS Limited, set up to administer the help scheme, is incentivised to maximise customer satisfaction, but that measure alone will not provide assurance of value for money. The scheme needs to strike the right balance between supporting vulnerable consumers and spending public money only where it is needed. The Departments should clarify the outcomes they wish to achieve from the scheme and should seek assurance from the BBC that it is taking action to deliver these outcomes.
7. **The Departments' reliance on voluntary labelling and the work of Digital UK to protect consumers from potential miss-selling of analogue televisions in the run-up to switchover has, so far, not worked.** The 'Digital Tick' was introduced nearly four years ago, but only half the staff in the two thirds of stores which use the Digital Tick logo understand what it means. Given reliance on the logo to protect consumers, the Departments should set out how, by the end of 2008, they will try to secure take-up of the logo by at least 90% of retailers (by sales), and at least 90% understanding of the Digital Tick among staff selling television equipment in retail stores. This should substantially reduce the risk that consumers will unwittingly purchase televisions with built-in obsolescence.
8. **The help scheme provides assistance to eligible people who wish to convert their second sets to digital, even though the Departments have not identified second set conversion as one of their objectives.** For some older people and some people with disabilities it is important to be able to watch television in more than one room of the house, and Digital UK has set targets for the rates of second set conversion it is seeking to achieve. The Departments should estimate the likely costs and benefits of helping eligible people to convert their second sets. They should then clarify the scheme's objectives and priorities in respect of primary and secondary set conversion, and should work with the BBC and Digital UK to deliver the desired outcomes.

1 The organisation and delivery of digital switchover

1. Digital switchover is a major government objective. It involves the conversion of more than 1,100 television transmitters to make public service broadcasting available to 25 million households in digital form by 2012. As the new digital network is introduced, analogue television signals will be switched off, region by region, starting in 2008. The Government's policy goals are to:

- provide near universal access to digital versions of the public service channels by extending the coverage of digital terrestrial television to 98.5% of UK households;
- provide consumers with sufficient notice of switchover and a reliable source of information about the options; and
- protect the interests of those people they expect to have the most difficulty with switchover.²

2. The Department for Culture, Media, and Sport and the Department for Business, Enterprise and Regulatory Reform (the Departments) are jointly responsible for switchover policy. They are not, however, directly funding or contracting for any of the principal activities on which the delivery of switchover depends. There is also no single organisation which has overall accountability for the value for money of the switchover programme.

3. The Departments passed to the BBC the responsibility for funding a public information campaign and delivering a help scheme to assist vulnerable groups to switch to digital. The BBC is accountable to the BBC Trust for expenditure on the government-designed switchover help scheme. The BBC is also responsible for funding the public information campaign. Digital UK Limited, a private not-for-profit company set up by the broadcasters at Government's request, is responsible for running the information campaign. Digital UK is accountable only to its shareholders, not the BBC Trust or the Departments. The commercial public service broadcasters are accountable to Ofcom for meeting switchover obligations set out in their licences.³

4. The complexity of the delivery arrangements poses inherent risks to achieving the Departments' switchover objectives, but the Departments argued that the arrangements were working well. Successful and co-operative relations had also been established with the relevant stakeholders such as Digital UK and Ofcom. To further demonstrate the effectiveness of their approach, the Departments pointed to national take-up of digital television having exceeded their expectations, and a successful procurement of the help scheme in Copeland in Cumbria, the first area to switch to digital.⁴

2 Qq 27–29, 35, 66–67; C&AG's Report, paras 1–2, 2.2, 3.2, 4.2

3 Qq 8, 38, 69–70; C&AG's Report, paras 1, 3

4 Qq 38–39, 79

5. The Departments had not contracted directly for core switchover deliveries, such as the help scheme, which the BBC had passed on to another contractor, eaga Plc, because they did not have the direct experience of managing a procurement of that sort and scale. They had therefore chosen to use an existing delivery mechanism, the BBC, rather than creating a new one.⁵

6. The Departments decided to fund the help scheme and information campaign through the licence fee settlement. This decision removed the £803 million to deliver its switchover policy from the normal parliamentary supply process and the statutory arrangements for scrutiny of public expenditure. The Departments told us that funding switchover in this way had not weakened monetary control or Parliamentary scrutiny. This was because expenditure of these funds falls within the scope of existing arrangements for scrutiny of, and accountability for, the BBC's use of licence fee income. These arrangements rely on the BBC Trust holding the BBC Executive to account for achieving value for money from its use of public money. However, these arrangements do not provide for independent reporting by the Comptroller and Auditor General to Parliament on the BBC's expenditure on switchover activities. The BBC Trust retains the final decision on what subjects the Comptroller and Auditor General examines as part of its value for money programme.⁶

7. The programme for converting over 1,100 transmitters is largely on track, although some of the time contingency has been used up due to the bad weather in the summer of 2007. Contingency in the timetable for converting the main transmitter serving three million households in the Granada Region has already been used up. The witnesses told us, however, that they were confident that the conversion timetable remained on track and that plans were in place to mitigate the impact of delays in Granada.⁷

5 Qq 5, 78–79

6 Qq 1–3

7 Qq 26–29, 66–67; C&AG's Report, para 7c

2 Protecting vulnerable people during switchover

8. The Government ring-fenced £603 million as part of the 2007–08 to 2012–13 licence fee settlement for the BBC to fund a help scheme offering practical assistance in switching to digital. The help scheme is open to people aged 75 or over, those who qualify for certain disability allowances, or people who are registered blind or partially sighted. The scheme was designed primarily to provide help in understanding and installing what equipment may be needed, rather than to provide financial assistance. It offers the most cost-effective equipment option, installation by a qualified and accredited supplier and, if required, an aerial upgrade. Alternatively, it offers a contribution towards acquiring other ways of receiving free-to-view or pay television services. Eligible people in receipt of pension credit or income-related allowances are entitled to free assistance. Those who are not in receipt of income-related benefits are charged £40 for assistance.⁸

9. Around seven million households are eligible to receive assistance in converting to digital television under the help scheme. However, only about half that number, including those not eligible for assistance under the help scheme, do not already have digital television. Eligible people are entitled to receive assistance under the scheme to convert secondary television sets to digital, so there is not a direct correlation between take-up of digital television, measured by primary set conversion, and demand for the scheme. The conversion of second sets is not one of the Government's stated policy objectives for switchover.⁹

10. Digital Switchover Help Scheme Limited, the BBC subsidiary set up to administer the help scheme, is required to write to all eligible people at least once, and is entitled to do so up to three times, to inform them about the scheme. However, lessons from the implementation of the scheme in Copeland highlighted that communications to eligible people were the weakest aspect of the scheme. The BBC identified a need to use voluntary groups and charities to communicate with those that did not respond and accepted that, in the light of the results from Copeland, more could be done to increase levels of awareness of the scheme.¹⁰

11. To establish the success of the scheme in the absence of arrangements for monitoring help scheme outcomes, the Departments told us that they had set clear eligibility criteria and required the help scheme to provide assistance to all those who are eligible and request it. The Chief Executive of the BBC company set up to administer the scheme explained that he is incentivised to try to achieve customer satisfaction rather than take-up of the scheme. Customer satisfaction had not, however, been specified as an outcome measure by the Departments.¹¹

8 Qq 80–81

9 Q 13; C&AG's Report, para 3.11

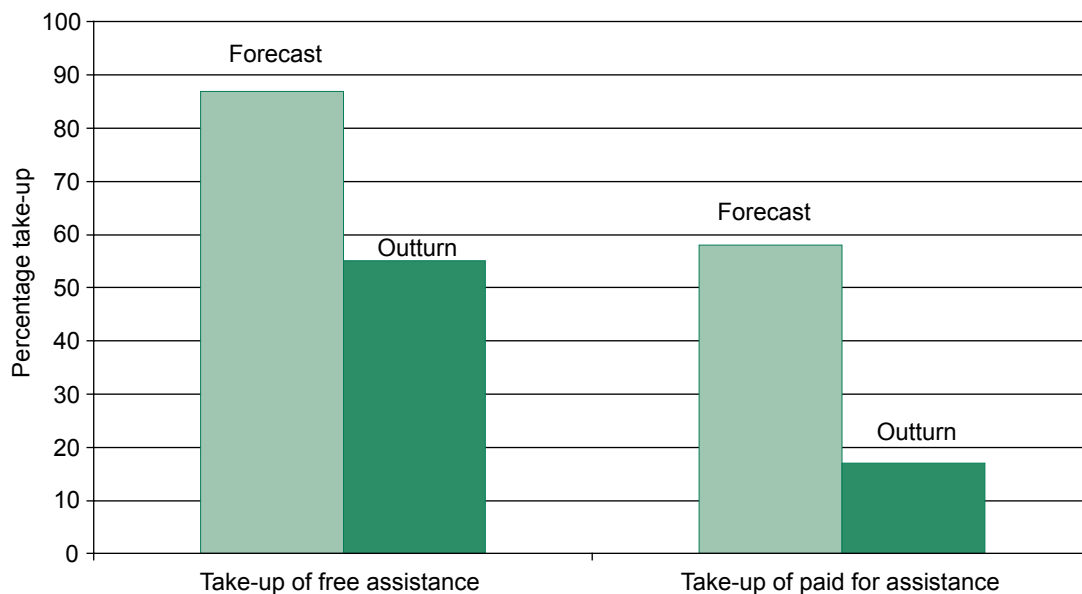
10 Q 63, C&AG's Report para 4.14

11 Qq 6–7, 62–63

12. The Departments chose not to set take-up targets for the help scheme. They told us that they would welcome eligible people receiving assistance from friends and family, which would reduce the demand for and therefore the cost of the help scheme. The witnesses told us that the contract for the help scheme has been structured so that only the costs of the help actually delivered are paid, and that lower take-up will therefore deliver savings against the £603 million ring-fenced for the help scheme.¹²

13. Although they had not set targets, the Departments did prepare take-up forecasts in order to determine the funding requirement for the help scheme. 55% of those aged 75 and over already have digital television, against a forecast of 42%. Take-up of the help scheme in Copeland, the flagship project which completed the switch to digital in November 2007, was much lower than forecast by the Departments. The Departments suggested that low take-up was not due to the £40 charge, as only 2% of those who explained why they did not take up the scheme cited cost. However, only 1,840 people, less than 20% of the 9,500 eligible homes in Copeland, offered any reason for their decision not to participate in the scheme, and the BBC's lessons learned research concluded that many people had perceived the scheme as an expensive way of going digital (**Figure 1**).¹³

Figure 1: Forecast and actual take-up of the Digital Switchover Help Scheme in Copeland



Source: C&AG's Report, figure 18

14. The operation of the help scheme in the first area to switch, Copeland in Cumbria, has provided the only evidence available to the Departments on scheme take-up. If the level of take-up in Copeland were repeated throughout the rest of the country, then using the Departments' own cost model, there would be a surplus of up to £250 million in the £603 million ring-fenced for the scheme. The witnesses said that it was too early to determine the likely outcome, but thought that once switchover reached the Granada Region in 2009,

12 Qq 9, 15, 54-57

13 Qq 9-12 ; C&AG's Report, paras 4.22, 4.24, Figure 17

it should be possible to make a firmer prediction of whether there will be a surplus or deficit.¹⁴

15. The Departments have not determined what will happen to any surplus funding or, if take-up in other areas turns out to be higher than forecast, how a funding shortfall will be met. Options put forward by the Departments included returning any surplus to licence fee payers. However, they did not provide a complete account of how and when this could be done.¹⁵

14 Qq 21, 58–59

15 Qq 21–25, 117

3 Protecting consumers

16. When analogue signals are switched off, only televisions which have been converted to digital or replaced with integrated digital sets will display broadcast signals. To ensure that consumers are aware of this and understand what to do for switchover, the government ring-fenced £200 million as part of the 2007–08 to 2012–13 licence fee settlement to allow the BBC to fund a public information campaign run by Digital UK.¹⁶

17. The Departments are relying on voluntary labelling by retailers, principally through the use of a ‘Digital Tick’ scheme. This scheme, which was introduced in September 2004, uses a certification mark to help consumers identify television products and services that are designed to work through switchover. However, research in November 2007 showed that only half the retail staff in the two thirds of stores using the Digital Tick were able to explain to consumers what the logo meant. Digital UK have now put actions in place to increase understanding among retailers, and the Departments felt that the Digital Tick scheme would have an increasingly important role to play in switchover.¹⁷

18. In the first half of 2007, some 1.8 million analogue televisions were sold, accounting for 45% of all television sales. While 73% of televisions sold in December 2007 were digital sets, more than a quarter of television sales were still analogue sets. Analogue tuners in these sets will not work after switchover, even if the sets themselves are converted to digital by the addition of a set top box. With switchover due to start later this year, and new televisions having an average replacement cycle of around seven years, a significant number of televisions on the market therefore have built-in obsolescence. The Departments agreed with the Committee that this was not satisfactory.¹⁸

19. The Departments did not know whether the millions of consumers who in recent years had bought, and were continuing to buy, analogue televisions had been told that they will need to purchase additional equipment to enable them to receive television broadcasts after switchover. Neither did they know whether retailers had, for several years, been deliberately selling analogue television equipment which would become obsolete before the end of its useful life. They told us that in their view, Digital UK, working with Trading Standards departments and Consumer Direct, would be responsible for any investigation into this.¹⁹

20. The Departments confirmed that there was nothing to stop retailers from continuing to sell analogue sets right up to the point of switchover. When asked why they had not banned the sale of analogue televisions as the French had done, the Departments explained that a Government consultation in 2001 had previously identified little support for this option amongst the general public. The Departments’ lawyers were also not confident that

16 Qq 3, 110; C&AG’s Report, paras 2.6, 3.3, 3.15

17 Qq 16, 20, 48–50

18 Qq 17–20, 47–52, 108–110

19 Qq 47–52, 110–115

such an approach would be legal under European Commission law and were therefore concerned that it could be challenged in the courts.²⁰

21. The Departments have estimated that the total cost to consumers of converting to digital television will be £3.8 billion, and the consumer benefits will total £5.1 billion. The Departments' estimate of the benefit is based on their valuation of additional consumer choice and extending the availability of digital terrestrial television from 80% to 98.5% of households. Although there are inherent uncertainties in this type of valuation, the fact that 85% of households have digital services on their main televisions clearly demonstrates that large numbers of consumers value digital services. However, 3.75 million analogue homes and 26 million analogue televisions remain unconverted, and millions of people will therefore face the cost of converting to digital if they do not want to lose access to broadcast services on some or all of their televisions.²¹

22. The Departments pointed out that consumers can convert their analogue televisions to digital by purchasing a set top box for £20 to £30. However, they also told us that around 10% of homes may need to upgrade their television aerial to receive terrestrial signals, which would add £60 to £180 to the cost. Those households that need to upgrade aerials could have to pay up to £200 to continue receiving even existing services, in digital form, in the year when they switch.²²

23. Digital UK has set targets for the BBC-funded public information campaign to achieve 100% consumer awareness of switchover in each region 12 months before it happens. For those consumers who want to convert to digital, it has set targets of 95% conversion of main television sets four weeks after the completion of switchover and 100% conversion of second sets after six months. The conversion of second sets is not a Departmental policy objective.²³

24. Awareness of switchover among some groups, particularly minority ethnic and non-English speakers, is below the national average. The Departments noted that the level of conversion to digital television among these groups exceeded the level of awareness, but said that Digital UK was reviewing the effectiveness of its communications and, for example, was placing adverts through channels which targeted ethnic groups.²⁴

20 Qq 17–20, 30, 34, 110–115

21 Qq 97, 100–102; Ev 16; C&AG's Report, para 1.8

22 Qq 18, 32, 75, 91, 93–96

23 Q 119; C&AG's Report, paras 3.5, 3.11

24 Q 25, C&AG's Report, para 3.12

Formal Minutes

Monday 19 May 2008

Members present:

In the absence of the Chairman, Mr Alan Williams took the Chair.

Mr Richard Bacon

Mr Ian Davidson

Mr David Curry

Draft Report (*Government preparations for digital switchover*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 24 read and agreed to.

Resolved, That the Report be the Twenty-eighth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 21 May at 3.30 pm.]

Witnesses

Monday 10 March 2008

Page

Sir Brian Bender KCB, Department for Business, Enterprise and Regulatory Reform, **Mr Jonathan Stephens**, Department for Culture, Media and Sport, and **Mr Peter White**, Digital Switchover Help Scheme

Ev 1

List of written evidence

Department for Culture, Media and Sport and the Department for Business, Enterprise and Regulatory Reform

Ev 15

List of Reports from the Committee of Public Accounts 2007–08

First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300 (Cm 7365)
Ninth Report	Helping people from workless households into work	HC 301 (Cm 7364)
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322 (Cm 7364)
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71 (Cm 7364)
Twelfth Report	Coal Health Compensation Schemes	HC 305 (Cm 7364)
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131 (Cm 7364)
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85 (Cm 7365)
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122 (Cm 7365)
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
Eighteenth Report	Improving corporate functions using shared services	HC 190
Nineteenth Report	BBC Procurement	HC 221
Twentieth Report	HM Revenue & Customs: Helping individuals understand and complete their tax forms	HC 47
Twenty-first Report	The Carbon Trust: Accelerating the move to a low carbon economy	HC 157
Twenty-second Report	Improving the efficiency of central government's use of office property	HC 229
Twenty-third Report	Report on the NHS Summarised Accounts, 2006–07: Achieving financial balance	HC 267
Twenty-fourth Report	The privatisation of QinetiQ	HC 151
Twenty-fifth Report	The cancellation of Bicester Accommodation Centre	HC 316
Twenty-sixth Report	Caring for Vulnerable Babies: The reorganisation of neonatal services in England	HC 390
Twenty-seventh Report	DFID: Providing budget support to developing countries	HC 395
Twenty-eighth Report	Government preparations for digital switchover	HC 416
First Special Report	The BBC's management of risk	HC 518
Second Special Report	Evasion of Vehicle Excise Duty	HC 557

Oral evidence

Taken before the Committee of Public Accounts

on Monday 10 March 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Keith Hill
Mr Austin Mitchell

Dr John Pugh
Geraldine Smith
Mr Alan Williams

Mr Tim Burr, Comptroller and Auditor General, and **Mr Rob Prideaux**, Director, National Audit Office, was in attendance and gave oral evidence.

Miss Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

PREPARATIONS FOR DIGITAL SWITCHOVER (HC 306)

Witnesses: SIR BRIAN BENDER KCB, Department for Business, Enterprise and Regulatory Reform, MR JONATHAN STEPHENS, Department for Culture, Media and Sport, and MR PETER WHITE, Digital Switchover Help Scheme, gave evidence.

Q1 Chairman: Good afternoon, and welcome to the Committee of Public Accounts, where today we are considering the Comptroller and Auditor General's Report on *Preparations for Digital Switchover*, and the Review by the Comptroller and Auditor General presented to the BBC Trust Finance and Strategy Committee on *The BBC's Preparedness for Digital Switchover*. We welcome Jonathan Stephens back to the Committee, who is Accounting Officer and Permanent Secretary to the Department for Culture, Media and Sport; Sir Brian Bender, who is Accounting Officer and Permanent Secretary at the Department for Business, Enterprise and Regulatory Reform; we also welcome Peter White, who is Chief Executive, Digital Switchover Help Scheme Limited, on behalf of the BBC. Mr Stephens, may I just ask you a general question about budgetary control? This is not going through the normal processes. As you may know, I am taking a lot of interest, as is the Liaison Committee, in trying to make the whole budget system easier to understand. Effectively this has been handed over to the BBC. Is this good for Parliamentary scrutiny, do you think? Would it not have been better for your Department to have done it? Because that begs the question whether your Department could have done it more efficiently than the BBC, but you may not want to answer that.

Mr Stephens: Digital switchover achieves very significant benefits for public service broadcasting. Ministers therefore decided that it was appropriately funded by the licence fee, which is all about ensuring universal access to high quality public service broadcasting, and digital switchover will significantly advance that objective.

Q2 Chairman: But you take my point that it does weaken Parliamentary scrutiny?

Mr Stephens: No, I do not accept that. Parliament has set up --

Q3 Chairman: You think that the Parliamentary scrutiny of the BBC is as great as your Department, do you? Manifestly it is not.

Mr Stephens: Parliament has set up a system of accountability and scrutiny around the BBC, which has been extensively debated in Parliament, set out in the Communications Act and the BBC Charter, and the arrangements for digital switchover simply reflect the existing accountability arrangements that are in place.

Q4 Chairman: Well, it is not an answer to my question, you are just saying what you want to do. Do you think it is good that you should ask them to do a social assistance scheme? That is what you are doing. Is that appropriate, for the Government to ask the BBC to do a social assistance scheme?

Mr Stephens: As I say, digital switchover achieves significant objectives for public service broadcasting, it widens access very significantly to all the digital public broadcast channels.

Q5 Chairman: We are not interested in whether it is a good idea to have digital TV, that is a policy matter, it is completely outwith -- is it a good idea to ask the BBC to do a social assistance scheme for you?

Mr Stephens: The help scheme is an essential part of that objective. The BBC is well equipped to do it, they have extensive experience in management and procurement of major contracts, they have used that to good effect with the contract for the help scheme. The help scheme is all about assistance to the most vulnerable of viewers. The BBC has a good and well-established relationship with its viewers.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Q6 Chairman: If that is so, shall we have a look at paragraph 4.10? “The Departments have recognised the importance of capturing and evaluating the implications for policy arising from the delivery of the help scheme but there are currently no established arrangements for monitoring scheme outcomes.”

Mr Stephens: The Department has set very clear objectives for the help scheme.

Q7 Chairman: But how can you know whether they are meeting your objectives if, as it says here, there are currently no established arrangements for monitoring scheme outcomes?

Mr Stephens: Because we have set clear criteria around who is eligible and require the help scheme to provide help to all those who are eligible and request it. We are deliberately not—

Q8 Chairman: There is £603 million worth of public money involved here, why do you not set out scheme outcomes or targets for them?

Mr Stephens: We have secured value for money, first of all because switchover as a whole has been subject to an assessment of costs and benefits, with the benefits clearly outweighing the costs. Secondly, we have handed over delivery of the help scheme to the BBC, which has an established accountability framework, with the BBC Trust holding the BBC Executive to account for value for money. Third, the BBC has undertaken a very successful procurement competition for delivery of the help scheme. We appointed an independent observer to that competition, and the independent observer, an expert from the OGC, cited the procurement competition as an exemplary model of its kind.

Q9 Chairman: If it is going so well, look at what we actually -- this is very early days in this, but let us look at what has happened in Copeland, figure 18, in terms of forecast and out-turn, both take-up of free assistance and take-up of paid-for assistance, and you will see that the actual out-turn is very, very much less than the forecast, and I wonder whether it is to do with the means testing for the £40 charge.

Mr Stephens: It is critical to understanding this that we deliberately do not set a target for the level of take-up. The scheme is there to ensure that all those who are eligible for it and want to receive help can receive help, and the figures from Copeland demonstrate that all those who wanted to receive help did receive help, so in those terms, it is successful.

Q10 Chairman: They did not ask for it. If you do not mind me saying, that is not answering the question at all. There is a much lower out-turn than forecast, and I would suggest it is something to do with the £40 means tested charge.

Mr Stephens: The evidence from Copeland does not support that. Of those explaining why they did not take up the scheme, only 2% cited cost as a factor;

more than 60% explained that they were already getting help, either from friends and relatives, or had already converted.

Q11 Chairman: All right, have you read paragraph 4.22? “The BBC’s lessons learned research for Copeland concluded that the charge may have had a significantly greater deterrent impact on take-up in Copeland than anticipated . . . ”

Mr Stephens: Yes, I quite accept, and my BBC colleague may want to comment on this, that there were important lessons learned about how to present the charge. There is evidence from Copeland that suggests that people did not understand just how extensive was the service being offered.

Q12 Chairman: “ . . . it was perceived by many people as a relatively expensive way of going digital . . . ”

Mr Stephens: I understand that was the perception, and that is one of the lessons to be learned from Copeland. It is not actually reflected by the facts of what is available under the scheme, because the scheme does not just provide a set-top box, it is critically designed to provide assistance in terms of identifying the options, and actual physical assistance, in terms of making the connections, installing the equipment in the home. So the primary objective of the scheme is not financial, it is all about providing physical assistance to vulnerable members of society.

Q13 Chairman: Perhaps I could ask the BBC, could you look at paragraph 2.6? We know that there are currently, it says here, 3.75 million homes, 15%, that are wholly dependent on analogue services. You have ringfenced £803 million to inform and support viewers. This may be wrong, but I have worked that out as £215 for each of the 3.75 million homes without digital TV. Would it not simply have been cheaper and simpler to give them £200 to equip themselves?

Mr White: I would split the figure. I think the £200 million for marketing is different to the £603 million for the help scheme. The help scheme may need to help people with second sets, so people may have already converted a first set, but it may be entirely appropriate for them to still want and need help for a second set, maybe in a bedroom.

Q14 Chairman: It seems a bit of a sledgehammer to crack a nut. You have £803 million to inform and support viewers. It is a lot of money, is it not?

Mr White: It is what was agreed with the DCMS and the licence—

Q15 Chairman: I just wonder if you are going to spend this money.

Mr Stephens: Perhaps I could pick that up. Clearly there is no desire to spend the money if it is not needed. The help scheme is essentially a demand led scheme, so if there is not the take-up, if people get friends and relatives to assist them in the switchover, that is highly desirable, and if it saves on licence fee

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

money, that is also desirable. The contract with the supplier of the help scheme has been set up to ensure that only the costs of help actually delivered are paid.

Q16 Chairman: Thank you very much. Just one question to you, Sir Brian, about the attitude of business. Would you like to look, please, Sir Brian, at paragraph 3.16? It tells us there that: “two thirds of the staff in these stores were unable to explain what it meant”, this is about this tick logo. “A follow up mystery shopping exercise . . . found that around half the retail staff in stores were still unable to give a satisfactory explanation of what it meant.” A bit worrying, is it not?

Sir Brian Bender: It is early days. The recognition was much higher in Copeland than elsewhere in the country. As I think the Chief Executive of Digital UK, Chairman, said in a letter to you, as more than three quarters of the public are now able to recognise the digital tick logo, it will play an increasingly important part. It was Digital UK themselves that did the mystery shopping that identified the data that is in the NAO Report, and they have now put in hand some more actions to address retailer understanding. An advisor scheme for stores, pocket cards for staff, partnerships with unassisted stores, trade advertising; so they are on the case, because that figure has to improve.

Q17 Chairman: I would hope it will. In paragraph 3.17, we see that 1.8 million analogue televisions were still sold in 2007. We read in the next paragraph that the French have a typically French solution, they simply banned the sale of analogue TVs. Why did you not just simply ban them?

Sir Brian Bender: I would say first of all our legal advisers are not confident that is legal under the EC Treaty.

Q18 Chairman: It has not stopped the French.

Sir Brian Bender: The second point I would make is the market is moving anyway, so 73% of TVs sold last December were digital. One retailer has now said they will only stock digital. The third point is you can actually receive digital TV with an analogue set, spending £20 or £30 on a set-top box.

Q19 Chairman: But these 1.8 million people are buying something which they are going to have to buy a box for. In France they have a very simple solution.

Sir Brian Bender: It comes back, I suggest, Chairman, to your last question, which is how effective retailers are at informing their customers about what the options are.

Q20 Chairman: You never thought of doing what the French have done?

Sir Brian Bender: The Government did consult on this some years ago and got little support, and the conclusion at the time was that effective and clear labelling would be more effective.

Chairman: Thank you. Alan Williams?

Q21 Mr Williams: Thank you, Chairman. If the experience of Copeland is replicated, looking at the switchover help scheme, a £600 million scheme, replicated everywhere, it would mean an eventual surplus of £250 million. Would that be a windfall profit to the BBC or would it become a windfall tax to the Government?

Mr Stephens: First of all, I should say I agree with the NAO’s own conclusion that it is simply too early to say what the eventual outcome of the costs will be, and there are reasons why the Copeland experience, which I think covers about 0.1% of the UK population, may not be replicated elsewhere. What the Government has done is it has ringfenced the budget for the help scheme within the licence fee, that means that as it stands, the BBC does not get the benefit from unspent money under the help scheme. The Government has reserved its decision on what would happen if the help scheme were underspent, and there are a range of possibilities, one of which is that the ringfence could be removed and the benefit could go to the BBC; another is that the benefit could be returned to licence fee payers, and there are a range of alternatives in between those two options, and no decision has yet been taken.

Q22 Mr Williams: How could you return it to the licence payers who have paid the fee? How would you process that?

Mr Stephens: I should emphasise that no decision has been taken, Ministers are keeping all options on the table.

Q23 Mr Williams: They are keeping options open, but are they meaningful options. It sounds all right, but think of the practicality of it. How are you going to return it to people?

Mr Stephens: Under the latest licence fee settlement, the six years of the licence fee was set with the figure for the final year set at a minimum of no cash reduction and potentially higher than that, so that variability allows some mechanism. The licence fee is not actually set for the year in question until shortly before the year, so there are a range of mechanisms which, if Ministers wanted to, they could use to return the money to the licence fee payer, or make other uses of any potential surplus.

Q24 Mr Williams: I tell you what I would like from you, I would like from you an indication of what system could be used to ensure the money went back to those who paid it, because I cannot see any conceivable way in which it could be done. But the reality is that it may end up as a windfall tax gain, I suppose, is it?

Mr Stephens: That is not necessary. There are means by which the licence fee could be reduced in future. As I say, we are talking at the moment about a hypothetical situation which the NAO say there is not yet the evidence to conclude will arise. Ministers have kept their options open for how they will respond if it does arise.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Q25 Mr Williams: That was one of the most Sir Humphrey-ish answers I have had from an official in a long time, and that is saying quite a lot on this Committee. Understandably, the ethnic minorities and people with lack of English are lagging behind in the switchover and the understanding of switchover. How can you overcome this?

Mr Stephens: It is an important issue of concern. Figure 12 shows that there is an interesting variation between awareness of switchover, which is low among minority ethnic groups, and actual take-up and conversion of actual sets, which is significantly higher than awareness, so it is not all one way. Digital UK are currently reviewing the effectiveness of their communications to minority ethnic groups, and looking at ways in which they can improve their impact through, for example, placing adverts and communications in the ethnic press.

Q26 Mr Williams: As one whose constituency in Wales is going to go through the process in the next 12 months, I am interested to see that the switchover date for London actually coincides with the date of the Olympics. That seems to be an interesting proximity of time. Do you think it was the best decision to put London at that stage? Someone had to be there, but why was it decided to be London at that stage?

Mr Stephens: Since I am responsible for both of them, I have a particularly close interest in that coincidence. The switchover timetable was fundamentally determined by a whole range of technical considerations, about the interaction between the numbers of transmitters that needed to be converted, and in particular, and this is particularly relevant to the South East, the interaction with other nations, and the potential interference from France and elsewhere, so the timetable was purely set for technical reasons. The aim in London and the South East is for the switchover to be accomplished before the Olympic Games. There will obviously be no switchover during the Olympic Games. Clearly, if there is any reason to think that there might be a risk to successful delivery of the switchover, then there is the ability to take that into account and revise the timetable if necessary.

Q27 Mr Williams: The timetable ran into some difficulties as a result of adverse weather conditions. That is not very encouraging on the very first venture, is it? How adverse was the weather that created this effect, and why is there no contingency in your overall plan for weather difficulties?

Sir Brian Bender: Perhaps I can take this, not least to give Mr Stephens a bit of a rest. There is built-in contingency at each stage. It was the wet summer that caused the problem. That used up a fair amount of contingency. The mitigating factors on that are increased working hours to reduce some of the constraints, and, potentially, use of reserve transmitters. I think there are two Members of the Committee who are in the Granada region; in that

particular case, one possibility will be launching on a reserve antenna, so that is how the contingency is trying to be re-established.

Q28 Mr Williams: How much variation as a result of weather could the contingency deal with?

Sir Brian Bender: I can provide a note on that, but essentially, as part of the Government's arrangements, there is a workstream on what is called the broadcast infrastructure. They identify whether or not a particular date is at any risk. If it is, they put up what is called a red alert, and that could lead to a change of date, ultimately if Ministers and Digital UK decide that the date is at risk. But there is a workstream that involves the relevant experts who look at the technical issues to do with the changes in engineering transmission.

Q29 Mr Williams: So like me, you are hoping for a sunny summer next year in Swansea and South Wales.

Sir Brian Bender: In most cases, there is plenty of contingency. The Granada area has been the most difficult, because of the scale of what is needed, but as I say, they have mitigating circumstances, both in hours worked and use of reserve antenna to ensure it can be launched on time. The last time it was looked at, the assessment was that it should proceed as scheduled.

Chairman: Thank you, Mr Williams. Austin Mitchell?

Q30 Mr Mitchell: Can I just pursue the point that the Chairman was raising, paragraphs 3.16 to 3.18, about our failure to ban the sale of non-digital equipment, Sir Brian? The story is in fact longer than that, is it not, because the television companies have been making representations for a long time to the All-Party Parliamentary Media Group that the sale of equipment which was described as digitally equipped, or had some kind of deceitful promotion to indicate the word "digital", but it was not equipped for switchover, should have been banned years ago. We were urging that and the companies were urging that, were they not?

Sir Brian Bender: Two comments on that. First of all, as I said in reply to the Chairman, the Government did consult on this in I think about 2001, and the conclusion was the one I described. Secondly, the crucial question is the recognition and staff training on the digital tick logo, because if you as a consumer want to buy relevant product, you can have confidence in that, but you also need to have confidence in the retailers, and that is where the Chairman's earlier question about retailer training and awareness comes in.

Q31 Mr Mitchell: It was a species of deceit that was being perpetrated on the public. People were being encouraged to buy these sets because the word "digital" was there in the promotion, and they are useless for practical purposes now.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Sir Brian Bender: Digital UK has a consumer protection strategy, they work with Trading Standards Officers and others to clamp down on cowboys in this area.

Q32 Mr Mitchell: These were not cowboys, these were big chains that were selling these sets.

Sir Brian Bender: The other thing I would say, and repeat the point, is you can actually receive digital on an analogue set, spending £20-£30 on a set-top box, so the Government did not wish to ban, for the reasons I described. Nonetheless, the market is moving, so 70%-odd are now sold digital, and I think it is Curry's that have moved to 100% digital.

Q33 Mr Mitchell: My point is it was a long time before even sets which cannot be prepared for digital by the addition of Freeview were stopped, and then the sale of non-Freeview equipped sets was going on, people were buying them right into 2007 and 2008. That is monstrous, is it not?

Sir Brian Bender: If shops are selling stuff ostensibly that can be used, and cannot, that is not right, and that is where I would hope that Trading Standards and others would be bearing down on them, as well as making sure consumers know about the digital tick logo. Because that must be the answer, in terms of moving forward, to make sure that customers know that if you buy something with the digital tick logo—

Q34 Mr Mitchell: It is clear that Government lacked guts, is it not?

Sir Brian Bender: Well, I do not -- the Government decided not to ban, having done a consultation. As it happens, as I said earlier, legal advice is that that could have been challenged successfully in the courts.

Q35 Mr Mitchell: If you have to maintain the freedom of letting people be conned, it seems a fragile freedom to merchandise to me. Mr Stephens, why is our timetable so extended? I notice on the figure on length of time, switchover times in other countries, that apart from Italy, where they do things more slowly anyway, ours is the most extended timetable around and ends up later, whereas Japan apparently is proposing to do it all on one day, big bang day, when everything will be converted, Ah So. One minute you will get digital where you could not before. Why do we lack ambition in this fashion?

Mr Stephens: It is dictated essentially by the conditions within each country. A number of the other countries that are doing it very quickly, in very short timescales, have very high levels of cable penetration, which is not true in the UK. In the UK, there are more than 1,100 transmitters to be converted, a very complex and regional interface of transmitters, and a number of overlaps with neighbouring countries, so the timetable through to 2012 seemed a realistic and ambitious but managed way of delivering switchover.

Q36 Mr Mitchell: It is not very ambitious in terms of the technical ability to get high definition television. If you are going to get that, you are going to have to use some of the existing channels when they are converted. The basic provision is fairly low actually in its technical equipment competence.

Mr Stephens: In terms of access, the current coverage of the existing digital public broadcast channels only reaches about 80% of households, so something like a fifth of the country are unable to receive the full range of digital public broadcast channels. After switchover, that will be virtually universal access.

Q37 Mr Mitchell: People want to be able to get interactive services, and they want to be able to get high definition television, and on the basic provision, they will get very little of that.

Mr Stephens: High definition is a separate issue. It is not available via digital terrestrial television at present, it is only available via satellite broadcast.¹

Q38 Mr Mitchell: But people think it is going to be. As well as being unambitious, we have created a real dog's breakfast. Here you have two Departments involved, and then you decide to hand it to the BBC, and then they decide to employ private contractors to do the job, and you have a Switchover Programme Group, attended by the two Departments, Ofcom, Digital UK and Digital Switchover Help Scheme Limited, they meet regularly, and the BBC is accountable for delivery, it has a Switchover Governance Board. Why do you have to make such a dog's breakfast of it? Why can you not have a simple structure and have it done by a Government department?

Mr Stephens: Because it is a fundamentally complex programme, a programme which the National Audit Office—

Q39 Mr Mitchell: It is not complex, it is very simple.

Mr Stephens: A programme on which the National Audit Office has commented that these governance arrangements are managing a programme that has established good progress, that has built momentum, that has exceeded expectations, in terms of the rate of conversion and turnover, and has built successful and co-operative working relations across all those who need to be involved; not my words, the National Audit Office.

Q40 Mr Mitchell: It has exceeded expectations, because you have this complex structure and meanwhile, Murdoch and Branson are doing the work for you. They have 75% with digital, either on cable or on satellite, and I see from the Report that 85% have digital sets in the house, so the work is actually being done for you. It is therefore going to be less expensive and more effective than your laborious long timetable.

¹ *Correction by witness:* High definition is currently available via satellite and cable.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Mr Stephens: Far from it, if I may say so. The evidence is that actually digital terrestrial television, the existing Freeview service, has overtaken provision of satellite digital services. Of course, switchover itself is intended and is delivered as a platform neutral change, but the satellite broadcasters, if anything, regard it as increased potential competition.

Q41 Mr Mitchell: If the BBC carries this out, and it has £600 million for the help scheme and £200 million for publicity and all that, if it does it more cheaply than that, does it get to keep the money?

Mr Stephens: The money is ringfenced in the licence fee.

Q42 Mr Mitchell: So the BBC cannot have it?

Mr Stephens: The BBC does not have access to it automatically. Ministers have reserved their decision on what happens --

Q43 Mr Mitchell: In doing it this way, of course, you have now prepared the way for a nice dogfight over topslicing, because you have various bodies, Channel 4 is one, but ITV is another, who want their fingers in this licence fee pie for supported public service broadcasting, and they are going to need some financial help after digital switchover, so you have now prepared the ground for a dogfight over what happens to the money.

Mr Stephens: That raises a wide range of policy issues.

Q44 Mr Mitchell: Yes or no?

Mr Stephens: The objective here was to ensure widened access to digital terrestrial television, to ensure universal access to high quality digital public broadcast services, that is rightly funded out of the licence fee, Ministers decided. They ensured that the BBC's programmes were not at risk by ringfencing the amount in the licence fee, and they have reserved their options—

Q45 Mr Mitchell: Hang on, the BBC is now trying to make large numbers of staff redundant because it did not get enough money, but we will move on from that. We have a situation now in which the help scheme is being undersubscribed, perhaps because, as the Chairman suggested, of the £40 charge. In my view, since it goes to people who are blind and cannot see television anyway, or people over 75 like myself, who are too old to watch television, it goes to a very limited market, does it not? It would have been more sensible, given the expense for old people in particular, I remember how long the switch from black and white to colour was, to have provided a more generous scheme, because at the end of the day, people are going to say, "Government is going to flog off these channels, make an enormous amount of money for itself, and it is forcing us to stump up money we cannot afford to get this digital system they have decreed for us".

Mr Stephens: The evidence that the Departments assembled in advance of switchover was clearly that the main barrier to switchover, among the elderly, vulnerable groups and others, was not cost, it was practical assistance, so the scheme was designed to deliver that practical assistance. There is no reason to think it is being undersubscribed, there is not an objective as to the level. If friends and relatives assist people to achieve switchover, well and good. The objective here is to achieve switchover with no loss of service to the consumer.

Q46 Mr Mitchell: I just want to ask one further question, and that is in the course of research I was doing over the last few weeks for a lecture I was giving on digital switchover at Sunderland University, I watched, just for the purposes of research, the pornography and sex channels which are available certainly on my satellite dish. Now these are horrible actually, they should be banned, I cannot see why we are allowing them, but my question is, if people convert to digital via the Freeview, are they going to have access to those as well?

Mr Stephens: You would have to tell me which particular channels. The entitlement is to around 20 public service channels which will not be broadcasting that sort of material. Beyond that, for those who can receive them, there will be a wider range of commercially broadcast channels. This is not the same as what is available on satellite.

Mr Mitchell: It is a terrible thought if we are actually equipping the country to watch this kind of degrading rubbish. Anyway, I will stop there, I have overrun.

Q47 Chairman: Just to complete one point of Mr Mitchell, Sir Brian, these 1.8 million people who bought analogue TVs in the first seven months of 2007, many of them presumably of lesser means, because they could not afford digital maybe, were they all told that their television would be useless after 2012 unless they bought this box for £20 or £30? They were not, were they?

Sir Brian Bender: I cannot answer that.

Q48 Chairman: I know you cannot, because one third of shops did not even have this digital tick system, and one third of the staff apparently did not —so we know they were not told. Can you imagine any other walk of life where 1.8 million people, particularly people of lesser means, are buying something which will be useless in five years' time, they are not told about it, unless they pay extra money? That is unbelievable.

Sir Brian Bender: At the time, I suspect the analogue sets were cheaper, so an analogue plus a set-top box might not have been more expensive.

Q49 Chairman: But were they told?

Sir Brian Bender: The answer must be they were not all told. I cannot answer your question.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Q50 Chairman: Huge numbers were not told that they were effectively buying something which was a consumer product which would be useless within five years, less, probably, unless they paid extra money. I think this is quite worrying, is it not? Are you not worried about this?

Sir Brian Bender: It plainly is not satisfactory, and that is why the digital tick system and the training of retailers—

Q51 Chairman: Surely you had the power to insist that television retailers at least tell people, at least warn them, do you not think that would have been quite an important thing to do?

Sir Brian Bender: This is part of the work that Digital UK are doing on their consumer protection strategy, but exactly what happened—

Q52 Chairman: It is not working, is it?

Sir Brian Bender: They are tightening it up so it does work looking forward.

Chairman: Tightening it up, 1.8 million—you know the point I am making. Richard Bacon?

Q53 Mr Bacon: Chairman, thank you very much. Can I just start by checking something with the NAO, please? The Report says that if the take-up was the same as in the Copeland experience, then there could be £250 million unspent, as I understand it, at the end of the process. Can you just clarify for me, that £250 million that would be unspent, how much of that comes out of the ringfenced £600 million for the help scheme, and how much out of the publicity, the £200 million?

Mr Prideaux: That all relates to the help scheme.

Q54 Mr Bacon: It all relates to the help scheme. Right, good, thank you very much. Mr White, you are in charge of the £603 million that the Government has given you to help people watch more telly, and make sure they do not miss out on anything and they switch over, and you could be sitting on £250 million that does not get spent. What do you think is going to happen? What are you going to suggest is done with this money?

Mr White: I still agree with the NAO that it is too early to tell. What I am pleased about though is that when we contracted with eaga, we have managed to get a contract which means if take-up is low, there will be the saving in money.

Q55 Mr Bacon: Say that again.

Mr White: If take-up is low, then we will make the saving in money.

Q56 Mr Bacon: You mean you do not have to pay them regardless?

Mr White: So what I am pleased to say is that actually if take-up is low, there will genuinely be that—

Q57 Mr Bacon: There will be genuinely be a saving; well, at least that is something.

Mr White: -- somebody running the scheme. I do not have a view on what that money should be used for. My job is to make sure that the scheme is available and offered to everybody who is eligible, and I help everybody who wants help within the parameters of the scheme. If that means money is saved, that is a good thing.

Q58 Mr Bacon: Absolutely, and you will know presumably by 2012 whether you have the £250 million?

Mr White: It is interesting the way switchover goes, there are two peaks, so by the time we go into Granada, we should begin to have a pretty good idea of the pattern of take-up, which means we will be able to start predicting any shortfall or what the increased need for fund might be, because it can go either way, although at the moment it is not pointing to be higher than £603 million, but we still will not be absolute until much nearer the end.

Q59 Mr Bacon: It is likely then that as we get closer and have more accurate information, that by 2012, you will know whether you have £250 million to spare or not.

Mr White: Or whatever the sum is.

Q60 Mr Bacon: There must be a lot of people who will be interested in the answer to this question, who will be saying to you over the next three or four years, “Mr White, do you realise that if you act in a certain way or do certain things or do not do certain things, you could have £250 million sitting there”; have they started coming to you yet?

Mr White: The useful thing is that I am protected by the policy of the scheme, so my role is to deliver the policy of the scheme. So the type of set-top box that we implement, which could be a cost driver, is set by what is called the core receiver requirements, which is set by Government policy. Who I can help is set by the policy. So actually my job is to deliver within those criteria. There are processes in place that involve Government and others if the scheme is changed in any way, but actually that is not for me to consider whether the scheme is to be changed, that is more of a policy issue.

Q61 Mr Bacon: Are you on some sort of bonus arrangement? Does your contract of employment give you a bonus?

Mr White: It does.

Q62 Mr Bacon: How are you incentivised, the number of people you help?

Mr White: More customer satisfaction, so I say the premise of the scheme, from where I sit—

Q63 Mr Bacon: Not more customers, more customer satisfaction?

Mr White: The premise of the scheme is to make sure that we reach all of those who are eligible and engage with as many of those as we can. I am entitled to write to them three times, but there will be some of the eligible people who still will not respond to that,

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

that we will need to use the third sector to get to, so I will be judged on that. I will also be judged on customer satisfaction, so if people we have communicated with, they say they want help, if we then give them help, I will be judged on how well we have helped them, not on take-up.

Mr Bacon: I must say I still regard it as amazing that we are spending all this public money to encourage people to watch more television, but that is another matter, a policy matter, not for me. I would like to ask Mr Stephens -- I was going to call you Sir Jonathan, but you are not yet. I am sure that will be corrected in time.

Chairman: As long as you do the Olympics properly.

Q64 Mr Bacon: I was going to say, Chairman, regardless of whether you do the Olympics properly. I am sure it will go very smoothly if we just wait long enough. I would like to ask you about Winter Hill and the delays. I think this was referred to earlier. In paragraph 2.16, it says that Winter Hill, which is in the Granada region, and serves 3 million households, "there is no contingency and work is currently significantly behind schedule. Action to recover this lost time could draw resources from other sites and potentially affect the completion of switchover in some other regions." What are you going to do about this? Are you going to affect the timetable elsewhere, are you going to affect the timetable there? It goes on to say that options include the use of a reserve transmitter at Winter Hill. Is that as powerful as the existing one?

Mr Stephens: I will pass this over to Sir Brian, if I may.

Q65 Mr Bacon: Welcome, Sir Brian, to your 25th hearing, I do not think anyone has mentioned that yet.

Sir Brian Bender: That is very kind of you.

Q66 Mr Bacon: We forgot to bring the cake, but we will get one eventually.

Sir Brian Bender: Perhaps afterwards. As I said in response to an earlier question, we may use a reserve antenna. The other thing that is being done in this area is more working hours to make up for the contingency, but at present, those who assess the risk have concluded that it is on time. The contingency has been used up, it has been mitigated in the way I have described, but present consideration by those who reach these judgments is there is no reason to change the schedule, and that means no knock-on effect elsewhere, or in its own area.

Q67 Mr Bacon: And the level of service will be the same?

Sir Brian Bender: I believe that to be the case.

Q68 Mr Bacon: I would like to ask about Ofcom. This is probably for you, Mr Stephens?

Mr Stephens: Ofcom is a joint responsibility of the two Departments.

Q69 Mr Bacon: I am always suspicious where there is lots of joint responsibility. I remember a hearing on the Northern Ireland Office, one of those Northern Irish Departments in Belfast, and the first thing the Permanent Secretary said was, "I would like you to know, Chairman, that I am not responsible for 98% of the spending here", which led you to question why that particular Permanent Secretary was in front of us, but she seemed to have more responsibility than anyone else. My question really is about who is accountable for all this if it goes wrong? Is it the BBC? Is it you, Mr White?

Mr Stephens: Ministers have set the timetable, they have set the objective, which is switchover in 2012, with no loss of service, with all those who want help who are eligible receiving help. That in turn has been reflected in obligations on the broadcasters for which their various regulators are responsible. Digital UK, which has been created by the broadcasters at the initiative of the Government, is responsible for overall management of the programme.

Q70 Mr Bacon: It says in paragraph 2.12 that Ofcom has recourse to statutory sanctions which it can use if licence holders do not meet their switchover obligations. What are these statutory sanctions?

Mr Stephens: They are the full range, including fines and ultimately action on withdrawing the licence.

Q71 Mr Bacon: When it says licence holders, it does not mean holders of television licences, you are not planning to fine --

Mr Stephens: It means broadcasters.

Q72 Mr Bacon: Just to be clear about that. I would just like to ask Mr White one other question about the impact of reducing services for infrastructure upgrades. What will be the impact on viewers of switching off existing services or reducing power to allow for infrastructure upgrades?

Mr White: Again, this is not my direct area of responsibility, but I understand that there are limited effects to consumers as they go through. There are a few minor ones in certain areas.

Q73 Mr Bacon: Whose area of responsibility is it?

Mr White: The controller of distribution.

Chairman: Thank you very much. Geraldine Smith?

Q74 Geraldine Smith: Thank you, I think a lot of the ground that I want to cover has probably already been covered, but sometimes I find it difficult listening to answers from Permanent Secretaries, I do not feel sometimes that I have had a clear answer, so maybe if I could ask one or two questions again, just so it is clear in my mind. My own area, the switchover will be in the Granada area October to December 2009, so retailers can sell analogue sets right up to October 2009.

Sir Brian Bender: Well, they can, but I repeat some of the points I was making earlier. First of all, the market is moving so that retailers—some of them have just stepped out of it, Currys have said recently

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

they will only sell digital; and secondly, the use of the digital tick symbol for consumers is a thing they should follow, and retailers are being further trained, but it is not banned.

Q75 Geraldine Smith: There may well be analogue television sets left around at that time in my area, so people will be able to buy them right up to the time, the day before the switchover takes place, and they will be buying a TV set that they are going to have to buy something else in order to make it work, right up until the day before.

Sir Brian Bender: Either the Government bans it, and as I said, in response to earlier questions, that is a decision Ministers decided they would not take; or we need to make sure that the retailers have the right information. In this particular case, as you say, if they do buy an analogue set, and that will become increasingly difficult, but if they do, then they would need to spend another £20-£30 on a set-top box to make it work.

Q76 Geraldine Smith: You said they made a decision after a consultation; who did they consult with?

Sir Brian Bender: I can provide a note, but I cannot answer that question. It was a full public consultation some years ago.

Q77 Geraldine Smith: Full public. You can provide the detail to me of how that consultation was carried out?

Sir Brian Bender: Yes.²

Q78 Geraldine Smith: I think some of us are left wondering why it has all been left to the BBC, the help scheme. It does not really hit you as the sort of thing the BBC would normally be getting involved in, helping old-age pensioners that may be on benefits with the digital switchover, and indeed the only thing the BBC have done is handed that out to eaga, to another company to do, so why could not the Government do that directly? Earlier in your answer, you said it was because the BBC were very experienced in procurement and everything; is the Government not? Is your Department not?

Mr Stephens: We do not deliver services directly as a Department in any of our areas, so we do not have the direct experience of managing directly ourselves procurement of this sort of size and scale, so we would have had needed to bring that expertise in at inevitably extra cost.

Q79 Geraldine Smith: Have you not created another layer, going through the BBC?

Mr Stephens: No, we have used an existing delivery mechanism rather than create a new one, and actually the evidence is that the independent observer involved in the procurement process said that the BBC conducted it in an absolutely exemplary way, it was a model of its kind for public sector procurement.

Q80 Geraldine Smith: Can I ask a little bit about the help scheme, whilst we have the opportunity, I understand they are broadcasting today, so for people watching, how will this help scheme work?

Mr Stephens: The help scheme will provide practical assistance to people who are aged 75 or over, or are disabled, qualifying for one of the disability allowances, and it will provide practical advice on what you need to do to achieve switchover. It will provide, if you want it, practical assistance in your home from a qualified and accredited supplier to actually fit and tune the equipment. It will not just provide the basic set-top box, but if you need, for example, an aerial upgrade, it will provide that, and it will also provide you with information on alternative choices if you do not want to go with the straightforward digital terrestrial options.

Q81 Geraldine Smith: Who will pay £40? Who will pay a charge and who will not?

Mr Stephens: £40 is the basic fee that the Government has set for the service. The assistance being provided is worth significantly more than that. Those who do not pay are those in receipt of either income-related benefits or pensioner credit.

Q82 Geraldine Smith: How will that information be made available to them? I have not seen that much information myself about this, considering we are only a year off in our area.

Mr White: When Digital UK write to each home with a generic communication, the help scheme will be mentioned, but we will also be starting more national campaigns and more local and regional awareness, so we are just about to kick that off. It is quite difficult for us, because eligibility is by region, and what we do not want to do is get loads of people now calling and engaging with us if they are switching, say, in London, in 2012, so managing the process of communication is quite tricky to get right, but I am worried too that awareness of the help scheme is lower than I would like at the moment.

Q83 Geraldine Smith: But your bonus will not depend on take-up, it will depend on customer satisfaction.

Mr White: And customer satisfaction is about making sure that the eligible person has been able to make the right choice at the right time, and therefore awareness of the scheme is important.

Q84 Geraldine Smith: But if you were really cynical, you could say that if you had fewer people to deal with, you could make sure they got a really good service.

Mr White: Because it is customer satisfaction for the eligible people, and what I do not want is people who are eligible for help, who need help, not knowing about it in time to get help and taking alternatives, so when we ask them whether they were happy with how we communicated, they say, "No, because we told you too late".

² Ev 15-16

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Q85 Geraldine Smith: So we can have an assurance that you will make every effort to make people aware of the help that is available?

Mr White: Completely.

Q86 Geraldine Smith: Because I think that is crucial, and I think certainly at this moment in time that information is not readily available for people.

Mr White: We could be doing more than we are currently doing.

Q87 Geraldine Smith: It would also stop them from buying analogue television sets if somebody tells them quickly.

Mr White: Or making the right choices.

Sir Brian Bender: Can I just add in relation to Copeland that the local MP said, "It's been a very positive experience. The communication and public information campaign was the best I have seen." So in the one area we have actually been live, that was the view of one of the two local MPs.

Q88 Geraldine Smith: I hope that continues. Can I say in my own area as well there have been some problems with Winter Hill and there is talk of using a reserve transmitter. Are you confident that that is going to work?

Sir Brian Bender: It is one of the contingencies that, if we need to, we will use a reserve transmitter and we are advised that that is a straightforward process to do it. As I said earlier, the experts in this area have looked at the risks of delay and have decided that it is satisfactory to proceed as scheduled. This is not something they just look at once. They look at it regularly along the way and, in the event that that risk increases, they would put out some advice that the timetable was at risk, but at the moment they are firmly of the view that it is satisfactory.

Q89 Geraldine Smith: One final question, something that caused me a little bit of concern: people who live in flats and will lose their television signal if landlords have not upgraded communal television reception systems to receive digital signals. What are you doing to persuade landlords to do this work?

Mr Stephens: That is clearly an obligation on landlords to upgrade their community provision and they are part of the wider communications effort. In particular, we have a number of engagements with both social landlords and the private rented sector.

Q90 Geraldine Smith: What would be the situation if a landlord decided not to, for any reason, maybe because of cost?

Mr Stephens: That would be his decision. As a result, his tenants would then either not be able to receive digital or would have to make alternative provision themselves, such as the receipt of satellite.

Q91 Chairman: Just a comment on Ms Smith's point that right up to the changeover people will be able to buy analogue TVs. We know, as I keep repeating, that 1.8 million people bought them in the first seven months and of course, we know that around five to

ten per cent of households would need to upgrade their aerials to receive terrestrial signals, which will add between £60-£180 to the cost. So you have 180,000 people who in the first seven months of this year bought an analogue TV which will be useless. That is a lot of money. I am surprised you are not more concerned about this. I cannot think of any other consumer product where people have not been told that they are going to have to spend the best part of £200.

Sir Brian Bender: I am concerned to make sure that consumers get the right advice.

Q92 Chairman: You are being a bit slow on the uptake. We know from these paragraphs in this Report that very large numbers—I have already read it out to you. You know the figures. Very large numbers of shops are not telling people.

Sir Brian Bender: That is something that Digital UK are very much on the case on with their training and—

Q93 Chairman: How long has this been going on for? I will ask the BBC this.

Mr Stephens: If I may just comment, it would be incorrect to say that the extra cost of an aerial upgrade is dependent on whether or not people buy an analogue television now. That is the result of the switchover from analogue transmission to digital transmission. It is not affected by the nature of the set that the householder has. So the extra cost of conversion of that analogue set is the £20 to £30 that Sir Brian has mentioned.

Q94 Chairman: How many of these 1.8 million people are going to end up having to pay up to £200 then?

Mr Stephens: As I said, that is not related to the purchase of an analogue television.

Q95 Chairman: How many?

Mr Stephens: That is a function of the nature of their aerial and will happen whether or not they purchase an analogue or a digital television.

Q96 Chairman: It is a bit vague.

Sir Brian Bender: We estimate that around 10% of households may need an aerial upgrade but that may be to do with age or condition of the aerial as well as whether it is an appropriate one.

Q97 Dr Pugh: Can I ask you about the estimates? I do not want to go over ground that has already been covered, but it would appear to me that one thing this is going to provoke is an enormous amount of disposal of electrical goods and people will actually be throwing out equipment which may probably have some life in and getting new equipment which will cost them some money. I think you give a figure of costs to the consumer of £3.8 billion and a benefit of £5.1 billion. Is it possible for you, not necessarily now, to give the Committee a more accurate breakdown of what is involved from the consumer's point of view?

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Sir Brian Bender: Just on the disposal issue, if I may, first of all, research that my Department and Defra did in 2006 suggested that switchover was not expected to result in any significant overall increase in TV or recorder disposal. The question is where it happens and how it is managed. It predicted a 1% increase in recorder disposal. That was what happened in Copeland. I realised, Dr Pugh, that was only the first part of your question but, as far as the disposal is concerned, we believe that we have arrangements in place through collection centres, local authorities, and indeed retail take-back schemes, to ensure that that should not be a problem.

Q98 Dr Pugh: That is an astonishing fact in itself. I am astonished that you have got a 1% disposal factor. I am even more astonished that you have predicted it because intuitively I would have thought an awful lot of people will cut their losses, not want to have extra boxes hanging around the place, and go out and buy a new telly, getting rid of the old one and putting it in serviceable condition—

Sir Brian Bender: But a lot of them are doing that day by day. I forget what the figure is but several million TV sets are bought a year. The question is whether that peaks massively in the run-up to switchover or whether people are just preparing because when they buy they trade up.

Q99 Dr Pugh: So that consumers are trading up now anyway rather than wastefully disposing of electrical equipment that works, and digital switchover is not making much of a difference to it?

Sir Brian Bender: So far, on the basis simply of the one area where it has happened, which, as Mr Stephens said, is a very small percentage of the population, it did not make much difference to disposal.

Q100 Dr Pugh: In terms of the benefits, we are apparently all going to benefit by £5.1 billion collectively as consumers because of this. How?

Sir Brian Bender: The main benefits come in two areas. One is the additional choice, basically, for people who can have the extra services.

Q101 Dr Pugh: How can you put a £5.1 billion figure on choice? You either have choice or you do not have choice. I do not see how you can quantify it.

Sir Brian Bender: I can give you a note on how we did the calculation.

Q102 Dr Pugh: I would love a note on how you did the calculation.³

Sir Brian Bender: Part of it is, I think as Mr Stephens said earlier, only 80% of households can currently access digital versions of public services. The switchover will allow 98.5% to do that, as the Report says. That is one element of benefit. The other is the freeing up of the spectrum, so the analogue spectrum that is being freed up by switchover is going to be

auctioned. Ofcom will be running that auction and that is the other main area of benefit, the benefits to consumers for whatever new services are provided on that spectrum. Those two together come to around £5 billion.

Q103 Dr Pugh: So the argument is that, because the Government will make something on it, I as a taxpayer will be providing less money for the Government?

Sir Brian Bender: No. The benefit to the consumer because of the services that will be available in the spectrum, whatever those services may be.

Q104 Dr Pugh: I am intrigued to know how I am going to benefit or how we are all going to benefit by £5.1 billion. I look forward to your note on that. My last question is simply this. It says that departments do not have an estimate of the cost to the public sector of switchover. I would have thought that was the easiest thing to do a costing on. Why do we not have a costing of the effect on schools and councils and other bodies that use electrical equipment of all sorts?

Mr Stephens: We do not have the information on the numbers of televisions used for broadcast. We are aware of the departments—

Q105 Dr Pugh: You do not have exact information on the number of televisions in the country, do you? You are doing estimates all the time. I do not think it is any more difficult to estimate how many TVs schools have than it is to estimate how many TVs a community has, is it?

Mr Stephens: For the purposes of the overall cost benefit analysis, the interest is in the overall benefit to the economy, and that is reflected in the cost benefit analysis that was on the table.

Q106 Dr Pugh: There is a downside. I was hoping as a taxpayer to gain enormously from the fact that the Chancellor of the Exchequer was coming for less money because he made so much on the spectrum sale but, of course, I could be the other way because schools, which I also fund through my taxes, are going to have to pick up the tab. Has that been factored in?

Mr Stephens: Schools generally do not make extensive use of televisions for broadcast purposes. They tend to use them for playing videos or DVDs or whatever.

Q107 Dr Pugh: So you do not have an estimate but you think it is probably quite a small figure?

Mr Stephens: Yes.

Q108 Angela Browning: I would like to pick up again on this question of what has happened out in the retail market, because I do think these are really quite extraordinary figures we are looking at in terms of what people are still buying or have been buying in the last year out there. I wonder if I could

³ Ev 16

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

begin by asking Sir Brian whether the Department of Business would recognize the term: “built-in obsolescence”?

Sir Brian Bender: Yes.

Q109 Angela Browning: As I have been listening to some of the questions and answers on this, I have been mentally picturing the scenario of the retail purchasers talking to their suppliers, the manufacturers of these TVs, and I would have thought, as retailers, they have had quite a whip hand in getting some good deals from their suppliers, their manufacturers. I will just say, Chairman, I was once a sales manager in the white goods market, not in the brown goods market as this is but I just think, as somebody who is a little bit familiar with this end of the marketplace, just imagine the scenario of the conversation that they have been having in recent years in order to get the best price out of the manufacturers. Here we are in a country where what they are trying to sell them is going to be obsolescent within a few years but if they can keep buying them, and particularly if they can keep selling them to their customers, the consumers, just imagine how the profit margin on those individual sales could be expanded for the retail trade. I wonder if you would just like to comment on that.

Sir Brian Bender: 73% of TV sales in December were digital. Twelve months earlier in December 2006 they were 37%. Production is now largely digital and, as I have said a couple of times in this hearing, in January of this year Currys became the first retailer to announce that they would discontinue analogue sales. So the market is moving.

Q110 Angela Browning: It is moving now. I am reading what the NAO have said on page 25 about what some of these big household names have been saying they are going to do now, but they have had a pretty good run in this trade, have they not, at a time when one would have expected them, Chairman, to be spending a lot more time in moving towards the change over to digital and ensuring that their customers were properly informed and making an informed decision on what they buy? It does seem to me extraordinary that they have been allowed to get on with this in such an unfettered way for so long.

Sir Brian Bender: You are right. The right answer has to lie in the proper information for consumers. That is what Digital UK are doing through the tick system. It has 76% recognition now but there is more to be done, much more, as the Chairman said earlier, in terms of training the retailers.

Q111 Angela Browning: Yet we know from looking at paragraph 3.16 that, despite several attempts to identify the amount of knowledge on the shop floor from the people actually selling directly to the customers, that there are still huge numbers who cannot give that informed advice when somebody comes in to buy. Perhaps you might not want to say this but do you think for one awful minute that we have a situation where the purchasers, the

companies, have been buying in, knowingly, products with built-in obsolescence at a much enhanced margin and at the same time not really going the full monty in making sure their staff were fully trained, perhaps with some incentives for selling particular ranges, in order to maximise profits? Do you think that is a possibility at the consumer’s expense that has been happening for some years in this country?

Sir Brian Bender: I do not know. I sincerely hope not.

Q112 Angela Browning: Should you not know? Have you not had conversations with them?

Sir Brian Bender: On this particular issue, Digital UK are addressing the question of understanding among retail staff and, as I said earlier in reply to a question, they have a whole series of actions in train to improve their understanding: an advisers scheme, pocket cards, partnerships, trade advertising. That is the direction we have been going down.

Q113 Angela Browning: It does not concern you that maybe this has been quite a deliberate policy in order to maximise profits right up to the point at which they had to do what was necessary?

Sir Brian Bender: This is a consumer protection issue and if there have been cases like this, certainly we would want Trading Standards and Consumer Direct to take them up.

Q114 Angela Browning: But if nobody actually makes the point of finding out whether that is the background to what has happened, in the light of these astonishing figures in this Report, who would take responsibility for such an investigation?

Sir Brian Bender: I think it would be—and I speak subject to correction—Digital UK as part of their consumer protection strategy on this.

Q115 Angela Browning: They would have the authority to do that, would they?

Sir Brian Bender: They have a consumer protection strategy and they work with Trading Standards departments and Consumer Direct on it.

Q116 Angela Browning: I would be very interested, Chairman, to know whether such a scenario has happened in recent years, because I cannot imagine why we are looking at figures as great as this, at the trade coming in so late in the day, both with training and changing the product, knowing for several years that this was the scenario in front of them. If it has been quite deliberately enhancing their own margins at the expense of the customer, which is what that would amount to, somebody surely must take some responsibility to find out whether that is the case.

Mr Stephens: It is worth, if I may, making the point that this is based on a considerable amount of speculation, if I may say so, first of all that there has been any loss to consumers because, as we have been making the point, analogue televisions may well be available at a lower price and can still be converted and still be used after switchover by consumers;

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

secondly, that there has been any excess profits engaged in by the manufacturers and, again, I am not aware of any evidence to that effect. It is also worth making the point that consumers may rationally be choosing to purchase analogue televisions for purposes that are not to do with receiving broadcast signals. So the straight assumption that after switchover people will have no use for an analogue television is not one that is supported by the evidence.

Q117 Angela Browning: I am not convinced actually, Mr Stephens, that anybody has looked at it in the light of what I have said, and it would be interesting just to know if somebody has investigated that hypothesis, but also, the more analogue televisions sold, the greater the demand surely is going to be on this fund that Mr White is looking after in order to help, assist and advised people. If I could just come to this point, because several of my colleagues have touched on this, this question of a possible surplus or an underspend at the end of it all, I think you have been very coy, Mr White, about what might happen to it. Chairman, I would just like to ask the Treasury Officer here about this because it is money coming through the licence but it is money which, if it was a government department that had underspent on a particular project, that department would not automatically feel they had ownership of what was left. The Treasury would, I would have hoped, almost certainly regard it as something that came back to the Treasury if not on a paper exercise.

Ms Diggle: In this particular case what would actually happen should there be a surplus—and we do not know, of course—a decision would be made by Ministers in the light of circumstances at the time.

Q118 Angela Browning: That is, in a way, encouraging to know that Ministers would look at that because I was not sure from your answers, Mr White, although you were not able to define exactly what would happen to the money, of course, whether you actually thought somehow that it would still remain somewhere within the BBC.

Mr White: No, the Scheme agreement is very clear. The Scheme agreement says in Schedule 1, paragraph 3: “Similarly, if Scheme expenditure is less than the estimated budget of £603 million, decisions on how this underspend is dealt with will be taken nearer the time that any underspend becomes apparent, possibly in the context of the next licence fee period.” So the Scheme agreement within which I operate is very clear on how that is decided. I am sorry if I was unclear on that.

Q119 Angela Browning: Thank you. My time is nearly up but I will, if I might, just ask you a question about my own constituency, which is Tiverton and Honiton in Devon and therefore in the South West, one of the early regions to move to digital. In a very helpful note specifically about my constituency from the NAO I am told that, although there is a good understanding among consumers in my constituency, however, the level of conversion to

digital is slightly below the national average and around half the consumers in the region still have unconverted analogue televisions. That worries me, Chairman, because not only do we have lower than average wages in the South West but actually, in my constituency I have lower than the average South West wages; the wages are very low, so I am extremely concerned that although their awareness is there, their willingness to put some money behind this is clearly below the national average. I wonder if somebody would like to comment in terms of how we are going to deal with regions like this who really will find this quite a financial penalty, particularly if they have all been sold analogue televisions in the last year or two.

Mr Stephens: If I am looking at the same sort of figures, it is 82% main set conversion in your constituency compared with a national average of 85%. So it is lower but only very slightly so, and the existing take-up before switchover of digital sets is influenced by a number of factors, including the existing availability of freeview and other factors, so it may not be influenced predominantly by cost. Indeed, the evidence is that cost is not a significant barrier to take-up of digital sets and the help scheme is available for those who require assistance, and for those who are on income-related benefits or Pension Credit it is free.

Q120 Angela Browning: Finally, Digital Outreach Ltd, which I have had a note on only in the last week or two, which is working with charities and has a helpline and so on, that helpline number that people ring, are they charged for that phone call?

Mr Stephens: Offhand I am afraid I do not know.

Q121 Angela Browning: It is 0845 number.

Mr Stephens: I am sorry. I do not know. We will obviously let you know the answer to that.

Q122 Angela Browning: Would it carry a premium rate? That is really what I want to ask.

Mr Stephens: Since the purpose is to reach out to vulnerable groups beyond the help scheme, I very much hope not, but we will confirm that.⁴

Q123 Mr Mitchell: My question is about the sell-off of the frequencies. We managed to make £22 billion when Gordon Brown flogged off G3, and the companies are dissatisfied. Some of us thought at that time if we are going to make that much money from selling off the frequencies, some of it should be devoted to subsidising the transition for beneficiaries and the less well off. Your brutal, callous Department turned that idea down flat as old Labour, et cetera, but there still is money to be made, is there not? Ofcom is now talking about: “the digital dividend” . . .

Sir Brian Bender: Yes.

⁴ *Note by witness:* To call the Digital UK help-line (0845 6 50 50 50) British Telecom (BT) charges are up to 2p per minute in the daytime, and 0.5p per minute in the evenings (plus a 6p BT connection charge). Rates may vary for calls from other providers, including mobile operators.

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

Q124 Mr Mitchell: ... and saying that the frequencies could go to local television, broadband, high-definition television. They have listed several uses. Can you just tell me technically when that happens? You have 1,150 some transmitters up and down the country. When an area switches over, do those transmitters, main transmitters and subsidiary transmitters, do their frequencies become available for flogging off in that area or do we have to wait until everybody has gone digital before they can be flogged?

Sir Brian Bender: We do not need to wait. Ofcom will be consulting on different awards of the spectrum in the Spring of this year and their present thinking is the timetable for the main auction will be in some window between the end of this year and Summer of 2009.

Q125 Mr Mitchell: The local television they talk of—that will be digital local television, will it, on digital frequencies?

Sir Brian Bender: The method of auction will be neutral as to the type of technology and the service. Whoever bids for it, there will not be any part of it reserved for particular purposes.

Q126 Mr Bacon: Mr Stephens, you said something about income-related benefits and pensioners getting it free, and I was not sure what the “it” in that sentence was.

Mr Stephens: The help scheme assistance through the help scheme.

Q127 Mr Bacon: You mean all the assistance that they need, including a set-top box, will be provided for free?

Mr Stephens: Yes, the equipment and the physical assistance in their home, if they require it, and an aerial upgrade.

Q128 Mr Bacon: Does that mean that, Mr White, you or your organisation or your contractor will be buying large numbers of set-top boxes at a low price so that you have them available to give to such people?

Mr White: Yes.

Q129 Mr Bacon: Good. I wanted to come on to set-top boxes. I have a fear about a potential risk that might emerge, but I would just like to go back to the line of questioning of Mrs Browning. Mr Stephens, you said something with which, surprisingly, I completely agree, which was that it might have been an entirely rational decision to buy an analogue TV, speaking as somebody who has got one myself, mainly because of the spectacularly low price. I could see that there were other, flashier televisions in the shop that were a lot more expensive. This one has a built-in DVD player, and all I wanted to do was watch my boxed sets of DVDs, with no desire to watch the output of any of the broadcasters you license, if I can possibly help it. It seemed a rational thing to do. It is quite possible that many others did the same. It would be helpful if you were to provide

Mrs Browning with a note if you could include any analysis that is available of the retail market. There must be consumer data out there on trends and why people were doing it and that would be very helpful. My theory—and perhaps, Mr White, you can address this—is as it gets nearer to switch-off, there could be emerge a species of spiv, going round terrorising little old ladies, selling set-top boxes for considerably more than they actually need to pay in order to get what they need. A set-top box several people have said is £20-£30. I have not looked recently but presumably, as large numbers of them are manufactured and they become more commoditised, that price could drop even further. You could be looking at a little black box that is the price of four or five packets of cigarettes. What I fear is you are going to find people going round knocking on the doors of people in low income areas, who are unaware of what they need to do, and trying to sell them something for a considerably higher price. Is that a risk you have considered? What will you do about it?⁵

Mr White: It is a risk and I think we need to be clear to people what the scheme offers them. The scheme offers what is called the most cost-effective option. Sometimes it may be DTT, ie, Freeview, or it may be other platforms if they are the cheaper option but with the DTT box criteria, which are set by the core receiver requirements, include audio description, subtitling, ability to use the box with even the oldest of TVs, so you do not need to change your TV, but those benefits we need to make sure are described clearly because some of the cheaper boxes do not have some of those functionalities, but also the support we offer in terms of going into a home and helping installing and providing aftercare, so I think we will get round some of that by being clear about what we offer so people can do direct comparisons, but it is very difficult to stop rogue traders. We did not see any real issues of that in the Copeland so we still have to learn to deal with that as we go into it.

Q130 Mr Bacon: What in your planning assumptions do you think you will be doing in terms of numbers of set-top boxes that you are giving away for people on benefits and pensioners?

Mr White: Again, it is related to the take-up of the scheme so it is absolutely dependent on the number of people who take it up.

Q131 Mr Bacon: But since they have to be manufactured and you are going to buy them, you must have a rough planning assumption of what you think it might be.

Mr White: Yes, but you would be surprised. You do not need to buy that far in advance. The quantities we are looking at from the manufacturers that we are buying from do not mean there is a great lead time. Obviously, what we do not want to do either is

⁵ Ev 16-17

Department for Culture, Media and Sport, Digital Switchover Help Scheme & Department for Business, Enterprise and Regulatory Reform

stockpile loads of boxes that then become redundant.

Q132 Angela Browning: Very briefly, and you may want to write on this, in my very rural seat in Devon I have a very small number of people who cannot actually get reception of analogue now. What they are asking me is, are we going to get digital? Will the digital reception be okay? Somebody will need to advise them on that before they invest a lot of money. Can you tell me how that will happen?

Mr White: Can I write to you on that?⁶

Angela Browning: Yes, certainly.

⁶ *Note by witness:* Everyone can find out today whether they be able to receive digital television services from switchover. On the home page of the Digital UK website—<http://www.digitaluk.co.uk/>—there is a postcode checker. By typing in your postcode and house number or name, you can find out what digital television options are available to you today, and then what digital television service you are likely to receive at switchover. If you don't have access to the internet, then you can call Digital UK on 0845 650 50 50.

Q133 Chairman: That concludes our hearing. Obviously, the most worrying thing is the amount of information given by retail stores. I do return to this very important paragraph, Sir Brian, paragraph 3.16, which I think you really have to try and take action about. “Two thirds of 256 retail stores visited stocked televisions carrying the digital tick. However, two thirds of the staff in these stores were unable to explain what it meant. A follow up mystery shopping exercise in November 2007 found that around half the retail staff in stores using the logo were still unable to give a satisfactory explanation of what it meant.” It may be Mr Bacon was making a rational decision—occasionally even he makes rational decisions—but I just wonder whether he was actually told the full implications of his decision.

Sir Brian Bender: I repeat, Chairman, that that is something that Digital UK are on the case on with retailers.

Chairman: Good. Thank you very much, gentlemen.

Supplementary memorandum submitted by the Department for Culture, Media and Sport and the Department for Business, Enterprise and Regulatory Reform

Question 77 (Geraldine Smith): *Details of the government consultation on the role of integrated digital television sets in achieving digital switchover*

In February 2001, ITV Digital (then ONdigital) convened a meeting of all the major manufacturers of integrated digital televisions (iDTVs) to which Patricia Hewitt, the then Minister, was invited. The manufacturers collectively pressed for legislation to require that from a date, such as 1 January 2004, all new tv sets sold in the UK should be iDTVs. They argued that this would shift the costs of digital receiving equipment from the broadcaster (through set top boxes provided as part of the subscription package) to the viewer.

Our legal advisers told us that the UK could not restrict the sales of television sets that comply with European standards and therefore it was not possible for the UK unilaterally to forbid the sale of analogue-only sets. However it would be possible for the European Commission to bring forward such a proposal if it were considered to be proportionate and non-discriminatory to achieving common European goals. We raised this issue informally with the Commission and succeeded in securing a discussion of the role that idtvs might play in achieving switchover at the meeting in January 2002 of the Digital Broadcasting Experts Group. On that occasion only France expressed interest. We also encouraged ITV Digital and the manufacturers to explore the level of support which such a measure might secure from their European counterparts.

In January 2002 the first Digital Television Action Plan owned jointly by Government and industry stakeholders included a commitment to “Comprehensively investigate with industry and European Commission issues surrounding the transition to exclusive sales of integrated digital TVs”. The demise of ITV Digital in late March 2002 caused us to hold back on the launching the formal consultation so that the revised state of the market could be taken into account. The consultation was published on 27 June 2002, and 15 responses were received by the closing date of 27 September 2002. The consultation document and the non-confidential responses continue to be available at <http://www.digitaltelevision.gov.uk/consultations/con—role—integrated—dtv.html>

Stephen Timms announced the conclusions in a press release of 27 February 2003 which said:

“The majority of responses did not support enforcing the sole production and sale of iDTVs but reflected the idea that consumers should have clear, explanatory information. The Government, with industry and stakeholders, is considering a number of measures, including:

- clear labelling of TV sets setting out what equipment consumers will need to receive digital signals; and
- a consumer information initiative.

The Digital TV Market Preparation Group, a task group of the Digital TV Action Plan, in consultation with the industry and other stakeholders, has already looked at the need for an information initiative.

The aim of any future information will be to set out clearly the choices for consumers, either to buy a digital adaptor or an integrated digital TV, in preparation for the digital switchover.

It will inform consumers that analogue TV sets will require a digital adaptor to receive TV broadcasts after the analogue signal is switched off.”

The work on clear labelling and a consumer information initiative was taken forward primarily through the “digital tick” logo, launched in September 2004 and registered by the Secretary of State for Trade and Industry as a Certification Mark. The “digital tick” is promoted extensively by Digital UK as part of its seven year £200 million campaign to inform consumers about switchover. Over 1,000 products are now accredited under the “digital tick” scheme as being designed to work through switchover, and consumer awareness of it has reached 65%. In addition, we welcome the package of measures announced by leading manufacturers and retailers in September 2007 following their meeting with Stephen Timms to address issues of analogue TV sales. These measures include accelerating conversion of all TV product lines to digital; moving to all-digital product lines of televisions and recorders in each region in the 12 months leading up to switchover in that area; and greater use of clear consumer information in stores. There has significant movement in the TV sales market over the past year from analogue to digital. In January 2007 less than half (45%) of all TVs sold were digital, but by January 2008 that had improved to 80% of all TVs sold being digital.

Question 102 (Dr John Pugh): *The Departments’ calculations used to reach the £5.1 billion customer benefit figure*

There are two main areas of benefits to consumers used in the Cost Benefit Analysis:

1. Benefits to consumers living in areas not served by Digital Terrestrial Television (DTT) before switchover—£2.72 billion

This is based on the willingness of consumers to pay for new television channels, estimated by survey in 2004. Before switchover 80% of households can, if they choose, receive through an aerial the digital versions of those public services that are available nationwide to analogue viewers—BBC1, BBC2, ITV1, Channel 4 (S4C in Wales), Teletext. Switchover will allow 98.5% of households to receive these services through an aerial, together with other services carried on the two multiplexes carrying these services.

2. Benefits to consumers from new services provided in the spectrum freed up by switchover—£1.67 billion

Again this is based on the willingness of consumers to pay for new television channels. The actual services provided in the spectrum may well not be television of any kind, but this was taken as the service with which consumers were most familiar and could most readily indicate a monetary value.

There are two elements:

— Services to be provided in the interleaved spectrum—£0.66 billion.

This is the 32 frequency channels that are retained nationally to support the six DTT multiplexes, but of which only six frequency channels will be needed at any given transmitter leaving the other 26 available to support services (provided they do not interfere with the DTT services).

— services to be provided in the 14 frequency channels cleared nationwide—£1.01 billion.

This is the spectrum that will be the subject of the main digital dividend auction. Because the frequencies will be available across the UK they can readily support national services. For the purposes of the CBA these were conservatively assumed to be more television channels.

In addition, the cost benefit analysis made the assumption that those consumers who make the switch to digital television because of switchover, rather than as a normal response to the market, nevertheless perceive a benefit. So for those consumers who make the switch to digital in the two years before switchover in their region (and who therefore cannot be in those areas who only get access to DTT at switchover, counted in Item 1 above), we have calculated a benefit of half the price of a set top box. This value contributes £0.66 billion to the cost benefit analysis.

The total benefits to consumers in Net Present Value terms using 2004 prices for completion of switchover in 2012 is £5.05 billion

Question 129 (Mr Richard Bacon): *Details of any available analysis of consumer choices in the TV retail market*

There has significant movement in the TV sales market over the past year. In January 2007 less than half (45%) of all TVs sold were digital, but by January 2008 that had improved to 80% of all TVs sold being digital. We welcome the efforts of the supply chain to achieve this, and their voluntary commitment to accelerate conversion of their sales lines to digital, including DSGi's recent announcement that it will not purchase any more analogue televisions to sell. The leading electrical multiples and supermarkets have also committed to seeing that analogue stock is moved out of regions around one year before switchover, or is bundled with a digital converter box. Any analogue TV can be converted with a digital box, but it is of course important that consumers are aware when buying an analogue TV that it will require a box at switchover. Digital UK is working with retailers to ensure that analogue TVs are clearly labelled as such, and that store staff explain switchover to customers. The imminent introduction of the Consumer Protection Regulations implementing the Unfair Commercial Practices Directive, which include an offence of mis-selling by omission, will assist in this.
