Annual Report 2003-04

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Ofcom Annual Report 2003-04

Of 167 (Sept 04)

Ofcom
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Chairman's Message

This is our first full Annual Report. It is hybrid in nature, covering two different kinds of activity through the year; firstly, the set-up phase from 1 April to 28 December 2003, then secondly our first three months of operation as the communications regulator once Ofcom assumed its powers on 29 December of that year.

Ofcom's transition from legislative concept to working reality began as Parliament approached the completion of an often intense two and a half year journey.

That journey comprised 17 days of Parliamentary debate, 26 Commons Standing Committee sessions, more than 300 stakeholder submissions and more than 500 Parliamentary amendments. The outcome was the Communications Act 2003 – Ofcom's main rulebook. Mandating 263 separate statutory duties for the new regulator (more than double the total number of duties inherited from the five regulators which we replace), the Act is a legislative heavyweight for the digital era, to be implemented by a regulator whom Parliament has encouraged to be light-touch in its approach.

The establishment of Ofcom comes as the sector we regulate faces major change in the future. The move to universal digital transmission in broadcasting and to internet protocol-based networks in telecommunications will have a profound effect on the sector between now and the end of the decade.

Technological innovation and lower barriers to entry for new competitors will yield new services – some of them radically different to what is available now – as well as greater choice and better value. Such developments are also a prerequisite if the UK is to be seen in future as an innovator and leader in a sector of growing global importance.

However, delivering on those opportunities will depend in large part on investor confidence; the next generation of wireless and wireline networks will not be built without a belief within the capital markets that the business models underpinning them are sustainable for the long-term.

There are early signs that the sector is beginning to emerge from the worst of the investment stasis evident since late 2000. But tentative interest will not become commitments of scale without a strong degree of certainty. For our part, insofar as we have a role to play, it is to apply clear and cohesive forethought to all of our decisions in these important emerging markets.

The Board is actively engaged in these broad strategic issues as well as the detail of Ofcom's many and diverse tasks; decisions on policy and other matters of substance are fully debated by the nine members prior to decision. It greatly values the work of the Content Board – its statutory committee in the content area – and the work of the Consumer Panel and other advisory committees.

Throughout 2003 our immediate priorities were for the most part necessarily inward-looking and practical in nature. The bringing together of five organisations into one against the backdrop of a live, and constantly shifting, Parliamentary debate about the shape of the regulator's remit amounted to a significant operational challenge for all of us at Ofcom.

However, we also used that period of creation to discuss, agree and publish the fundamental regulatory principles which all of us will seek to follow and against which all should expect publicly to be measured.

The seven principles are set out in full on our website at **www.ofcom.org.uk**. I would like to highlight three in particular:

- that we will operate with a bias against intervention;
- if we do have to intervene, we will strive to ensure our interventions are timely and are based on evidence; and
- that we will always seek the least intrusive means of regulating.

The first three months of operation in 2004 gave all of us at Ofcom an opportunity to use those principles as a filter through which both the routine of day-to-day regulatory operations and the outcome of debates on policy formulation must pass.

Three months is too short a period for a detailed assessment of our success in abiding by our own principles. However – while allowing for the effects of transition and the immediate logistical challenges of bringing together five very different cultures into one – we believe that the direction of travel is correct.

The overall effect of those principles is encapsulated in the term *a bias against intervention*. We will not tread where the functioning of a truly competitive market is already meeting the appropriate needs of citizen-consumers. If we do need to step in, we will, first and always, seek to facilitate a quick outcome with the stakeholders concerned rather than resort to the minutiae of direct regulatory measures.

The injunction to all of us at Ofcom is clear; explore other options before you recommend intervention. However, light-touch regulation is not necessarily easy to achieve and all participants – from regulator and the regulated to the public and Parliament – must have confidence in the process if it is to work.

Under Section 3 of the Communications Act, we are required to identify how we have resolved any conflicts between Ofcom's General Duties in the conduct of important cases. During the period under review, the Board can report that no important cases arose in which such conflicts had to be resolved. That is perhaps a testament to the quality of our rulebook. It is also, we hope, a positive harbinger for the year ahead as Ofcom seeks to secure the right balance between the many competing forces shaping the UK's communications landscape.

David Currie
25 August 2004

Chief Executive's Report

Ofcom's Annual Report 2003-04 covers, by necessity, a great deal more of our work in plumbing than our work in policy.

Throughout 2003 much of the management team's attention was devoted to establishing the fundamental systems and processes without which no regulator could function. The set-up months – from April to December 2003 – presented Ofcom with both a unique opportunity and a complex challenge.

The opportunity lay in the creation of a new organisation which combines the virtues of the public and the private sectors. One that is able to match due process with due pace and with a clear understanding of the commercial realities of the communications sector; and one that is both fewer in number but stronger in expertise than the sum of the five organisations it has replaced.

The challenge lay in doing so in the full glare of public and Parliamentary attention and within an unavoidably compressed timeframe. The Communications Act did not receive Royal Assent until 17 July 2003; leaving a little over five months to complete a five-way organisational merger and associated headcount and property portfolio rationalisation.

Most of the core senior management team were in place by the summer of 2003. The first and most important task was the selection of colleagues from the legacy organisations. The process which followed is set out in the Operating and Financial Review section of this Report.

Our starting intention was to use the transition from five organisations to one to make a range of efficiency savings. We reduced headcount by 25 per cent; we also set ourselves a 2004-05 budget target which was 5 per cent lower, on a like-for-like basis, than the combined budget of the five previous organisations. London-based colleagues then successfully migrated from five organisations in six separate London properties into a single headquarters building. Colleagues in the Nations and Regions followed the same process in the spring of 2004.

Ofcom intends to build on those early operating budget target reductions. We are committed to being an RPI-minus regulator in relation to our own costs. In addition to the 5 per cent budget reduction as a result of the operational merger, Ofcom has committed to a further 5 per cent cost reduction during 2004-05 and we aim to cut another 5 per cent next year.

The transition was put into effect with minimal interruption to the flow of daily business – licensing activity, complaints investigation, casework and all other ongoing work continued to be undertaken throughout the handover from five organisations to Ofcom.

The whole project was completed slightly ahead of time and slightly under the set-up budget allocated to Ofcom in the form of a loan by the Department of Trade and Industry (DTI).

The sector

The sector we regulate matters. Well-run electronic communications networks underpin the workings of modern democracy; they also play an important part in securing industrial competitiveness.

These are activities we do well as a nation. The UK communications sector has developed a global reputation for growth and innovation in a number of areas such as mobile telephony and digital television. It is also a significant source of employment and revenues for the public purse.

However, new challenges lie ahead, principally the need for further investment in infrastructure:

- In broadcasting, to prepare for the transition to fully digital transmission.
- In telecommunications, to prepare for the second generation of mass-market broaderband services.
- In wireless communications, to prepare for the delivery of new, high-speed fixed and mobile data services.

If the UK is to remain economically competitive and its people are to benefit from the new services becoming available to their peers in other countries, then these investments are not optional.

Over the next two to three years a large number of companies will face difficult decisions about the timing, scale and source of the investment needed to bring about these changes. Investors are beginning to return to the sector; however, they are looking for clear evidence of sustainable growth before committing.

Our approach to the sector

The communications sector has changed significantly in recent years, to the point where many of the assumptions which had informed approaches to regulation in the past are becoming increasingly less relevant and appropriate. As the organisation took shape it was clear to the Ofcom Board that effective communications regulation in the future would depend on the regulator adding a new mix of skills as well as adopting a new kind of approach.

In the latter part of 2003 and the early part of 2004, Ofcom began to build the appropriate capabilities across a range of professional areas, from technology and research to competition law and economic analysis.

Our intention throughout has been to recruit colleagues who are able to engage effectively with their peers within the companies we regulate. In recruitment terms, in many cases that has meant drawing directly on the sector we regulate; while the majority (85 per cent) of all Ofcom colleagues transferred from the five previous organisations, a majority of senior colleagues have joined Ofcom from the commercial sector.

As those senior colleagues have joined the organisation, we have developed the various internal functions which oversee both policy formulation and day-to-day regulatory operations. These are overseen by the Executive Committee, which comprises the organisation's most senior managers.

Early decisions

Whilst most management focus throughout 2003 lay in the necessary detail of operational transition, Ofcom also began to engage in a number of important policy areas:

- In telecommunications we began to set out our longer-term approach to the UK's broadband market, including:
  - Changes to the regulation of the Wholesale Broadband Access market intended to stimulate greater competition.
  - Defining a guaranteed margin for wholesale providers using BT's Datastream products.
  - Introducing greater flexibility for wholesale providers by cutting the cost of moving their customers between BT's IPStream and Datastream products.
  - First steps in our review of local loop unbundling, the process which allows network operators to compete in offering a range of innovative new broadband, media and telephony services between the local telephone exchange and the customer's premises.
- In broadcasting:
  - We played an active role alongside the Independent Television Commission and the Office of Fair Trading (OFT) in response to the merger of Carlton and Granada, and worked closely with the OFT successfully to implement the Contract Rights Renewal Remedy in the statutory undertakings.
  - We approved the broadcasters' Codes of Practice for commissioning work from independent producers.
  - In radio we developed a new process for the licensing of new FM commercial radio stations, with extensive input from industry.
- In wireless communications:
  - We embarked upon our Strategic Review of Spectrum Framework – Ofcom's long-term approach to the management of an important and finite national resource.
  - We undertook a public consultation on proposals to allow Spectrum Trading between wireless communications services providers.

Why consult?

The law requires Ofcom to consult ahead of many of its decisions. This legal obligation is entirely appropriate; even if consultation was not mandated by the statute, our own belief is that our decisions must be informed by the views of people and organisations with an interest in the outcome. Stakeholder consultation is an important aspect of our commitment to transparency.

In light of this, Ofcom has developed a formal consultation strategy. This is led by a consultation champion – Philip Rutnam – whose role is to ensure that the organisation adheres to its stated principles. Our major consultation documents are made available to a broad range of stakeholders; wherever an issue is likely to be of direct interest to citizen-consumers we also produce a summary granted a Crystal Mark by the Plain English Campaign.

There was an unavoidably large number of consultations during the period under review, for two reasons. First, the pace of decision-making in the legacy organisations slowed as decisions were deferred to Ofcom's in-tray – leading to an increase in the amount of work to be completed once Ofcom opened its doors on 29 December 2003. Secondly, the Communications Act also required a large number of changes to be implemented as soon as Ofcom assumed its powers.

During the period under review, of the 37 consultations issued by Ofcom, nine represent the lag effect of the interregnum between the legacy regulators and Ofcom, 23 were required by the Communications Act and only five were initiated by Ofcom.

Of the consultations begun by Ofcom, at least two – the Statutory Review of Public Service Television Broadcasting and the Strategic Telecommunications Review – will by the end of 2004 provide clear regulatory frameworks for much of the communications sector. This will hopefully reduce the number of day-to-day decisions and consultations in which Ofcom will have to engage the industry.

Our bias against intervention

In practice, appropriate light-touch regulation can take many forms. All yield longer-term benefits to citizen-consumers by reducing unnecessary regulatory burdens (and therefore costs) on businesses while continuing to provide the necessary audience and customer protections. For example, if a broadcaster is inadvertently in breach of the Programme Codes but on its own initiative takes immediate and appropriate action to prevent a repetition, then regulatory intervention is not required.

If intervention is required, we are committed to ensuring it is fair, prompt and effective. This may mean the timely and proportionate application of our powers as the regulator. It may also mean an attempt to facilitate a resolution by encouraging greater negotiation between the parties to a complaint or dispute.

Our approach to co-regulation of broadcast advertising is also founded on a commitment to securing the right balance between protection of the citizen-consumer interest and a commitment to securing the least intrusive means of regulation. The creation of a spectrum trading market – replacing a top-down, centralised approach to the management of the airwaves with one defined by an open market among wireless communications service providers – is another example where the regulator can reduce its role in direct regulation.

In some areas we have a specific statutory duty to work towards a public policy goal which markets alone cannot achieve. Our work on maintaining and strengthening the quality of Public Service Broadcasting in an increasingly competitive market is a good example of this. Viewers, Parliament, broadcasters and regulator all value public service broadcasting and recognise the contribution it makes to a greater social good. However, if left to itself, the market is unlikely to deliver the range and quality of programmes currently on offer. Targeted and proportionate intervention is therefore appropriate and necessary.

Evidence-based regulation

We seek to ensure all our decisions are founded on evidence, and we research markets constantly. For example, our actions to release 5.8 Ghz Band C spectrum for broadband applications of particular benefit to remote rural communities was driven by technological research as well as by clear indications from users of the need for a low-cost licensing solution.

Ofcom is committed to an assessment of the impact of any proposed change in regulation prior to the implementation of that change. Regulatory Impact Assessments (RIAs) explicitly present different policy options and the advantages and disadvantages of each. The evidence presented may be costed (as in a cost-benefit analysis) or not. RIAs play an important role in informing regulatory policy.

The reviews and consultations inherited from the legacy organisations were consistent with the RIA processes of those organisations. No Ofcom decisions to which the RIAs relate were taken during the period under review.

The full list of RIAs undertaken is set out in the Operating Review section of this Report.

Measuring our effectiveness

An early priority for 2004-05 is the development of an evaluation framework which assesses Ofcom's performance for the purposes of both external accountability and internal management efficiency. Ofcom will publish key performance targets in future Annual Reports.

This evaluation framework will include a range of indicators measuring the degree to which Ofcom has achieved its regulatory objectives and principles. Those indicators will include promptness standards. To that end, Ofcom is already capturing data on:

- Time taken to conclude competition cases.
- Time taken to resolve fairness and privacy complaints.
- Response times in operational areas such as Licensing and the Ofcom Contact Centre.

Lessons learned

During the transition to Ofcom in late 2003 and the early part of the operational phase from 29 December 2003 to 31 March 2004, there were a number of areas where in either process or policy, shortcomings emerged:

- Whilst we opened Ofcom's doors on time and slightly under budget, in retrospect we still underestimated the internal logistical burden arising from the transition.
- As a consequence of the effects of transition in our early weeks we were obliged to publish a relatively large number of consultations which placed a short-term but unforewarned regulatory burden on our stakeholders.
- In our consultation on access to television services for disabled people we accepted too readily the arguments against stepped targets. The consultation process was effective in helping us reach a better outcome.
- We did not sufficiently seek the views of key stakeholders, particularly those in the newspaper industry, prior to the announcement of our consultation process on the media mergers public interest test.

The year ahead

Ofcom's Annual Report for 2003-04 provides only a brief snapshot of Ofcom's longer-term approach.

The year ahead will bring the completion of work in significant commercial areas:

- In television with the conclusion of the Review of Public Service Broadcasting.
- In telecommunications with the conclusion of the Telecommunications Strategic Review.
- In wireless communications services with the further development of the Strategic Review of Spectrum Framework and the implementation of Spectrum Trading.
- In television, the implementation of the planning framework identified in our report to the Secretary of State for Culture, Media and Sport, entitled *Driving Digital Switchover*.

We will also seek to refine still further our many hundreds of day-to-day operational services and systems, whilst increasing efficiency and reducing unnecessary costs.

We expect that our principles will continue to be tested against the daily reality of regulating one of the UK's most dynamic and constantly-changing sectors; we will also expect to be measured against our delivery of the Ofcom Annual Plan for 2004-05. That document will form the basis for next year's Annual Report, when we will report publicly on the extent to which we have achieved the objectives expected of us.

In conclusion I would like to take this opportunity to thank all my colleagues within Ofcom, and the senior team in particular. The communications sector is vital to the competitiveness of any modern economy, and its products and services provide choice, information and entertainment to millions of people on a daily basis. In approaching our task we have tried to get the balance right between the citizen interest and the consumer interest. Whether we have achieved this or not is for others to judge. What I know to be incontestable is the hard work and effort that has been put into delivering the responsibilities laid on us by Parliament, and rightly expected of us by the companies we regulate.

Stephen A. Carter
25 August 2004

Report from the Chairman of the Content Board

The Ofcom Content Board was set up in accordance with Section 13 of the Communications Act 2003. A committee of the Board of Ofcom, it has two key functions – broadcast content regulation and media literacy.

The Content Board's primary task within Ofcom is to champion the interests of viewers, listeners and citizens across the United Kingdom relating to:

- the provision of broadcast services of high quality and appealing to a variety of tastes and interests;
- adequate protection from the inclusion of offensive and harmful material in broadcast services; and,
- adequate protection from unfair treatment at the hands of broadcasters and from unwarranted infringements of privacy.

The Ofcom Board delegates to the Content Board all matters that are purely content-related. Where issues have both content and economic dimensions, for example the Public Service Television Broadcasting Review, final decisions are taken at the Ofcom Board following full scrutiny by the Content Board.

Whilst Ofcom has no statutory remit over the content of non-broadcast electronic communications networks such as the internet and 3G, the Ofcom Content Board also has a role in encouraging the appropriate self-regulation of content made available on those networks.

Regulating broadcast content

The Content Board spends the majority of its time on content regulation of broadcasting over terrestrial, satellite and cable platforms. This can be divided into three types or tiers:

Tier One – protecting audiences

Tier One regulation for all radio and television broadcasters (including the BBC, with one exception noted below) is concerned with so-called "negative content regulation" – what broadcasters should not do. This relates to harm and offence, accuracy and impartiality, fairness and privacy. The BBC Governors, not Ofcom, regulate accuracy and impartiality complaints against the BBC.

Further details of Ofcom's approach to content regulation are set out later in this Report.

Tier Two – ensuring creative diversity

Tier Two regulation concerns the establishment and monitoring of quotas for all public service television broadcasters (ITV, Channel Four, Five and BBC television) in relation to independent production quotas, regional production quotas, and original (UK/EU) production quotas. Here the aim is to secure a healthy production industry and strong local content.

Tier Three – broadcasting as a public service

In television, Tier Three regulation involves monitoring the requirement for commercial public service television broadcasters (ITV, Channel Four and Five) to meet their public service obligations via an annual system of statements of programme policy.

Under Tier Three regulation, the BBC is required to consider guidance given by Ofcom about the preparation of the BBC's statements of programme policy. The BBC is also required to consider any reports published by Ofcom such as those produced in the course of the Public Service Television Broadcasting Review.

In radio, there is also a Tier Three equivalent which requires commercial radio stations to adhere to their agreed formats and to the new localness guidance set out in the Communications Act 2003.

Work during the period under review

During the period under review the Content Board either itself or through recommendation to the Ofcom Board:

- Approved the continuation of the relationship between Ofcom and the Central Religious Advisory Committee and approved the appointment of a new Chairman of the Committee.
- Appointed the Chairman and members of the Gaelic Media Service.
- Approved the consultation document on Electronic Programme Guides.
- Approved proposals for procedures to consider statutory sanctions against broadcast licensees.
- Approved the proposal by Five to enhance its peak-time news updates at 8, 9 and 10pm by removing the commitment to produce a late evening news bulletin at 11pm.
- Reviewed the ITC decision in the 118118 case and found that the advertisements did caricature David Bedford.
- Approved interim programme quotas for 2004 for public service broadcasters (including the BBC) pending the outcome of Ofcom's Public Service Broadcasting Review later in 2004.
- Approved procedures for handling fairness and privacy complaints and standards complaints including the format of hearings of the Fairness Committee and the Content Sanctions Committee.
- Endorsed revised guidelines on determining the eligibility of religious bodies to hold certain broadcasting licences.
- Approved for publication the consultation document on the future of broadcast advertising co-regulation.
- Approved an approach to defining regional production and regional programmes.
- Approved for consultation a draft Television Access Services code giving guidance to television channel providers on the provision of subtitling, signing and audio description.
- Approved interim guidance for consultation on localness in commercial radio.
- Approved the approach to be taken to local radio licences in the event of a change in control under the Communications Act.
- Provided input into Phase 1 of the Public Service Broadcasting Review.

Content Board Members

The Content Board comprises 13 Members – two full-time executive Members and 11 part-time non-executive Members. Three of the 13 Members of the Content Board – myself, my deputy chairman Sara Nathan and Kip Meek, Senior Partner Competition and Markets – are also on the Ofcom Board. This further ensures close working between the two Boards.

I would like to thank all my colleagues on the Content Board and all those who work within Ofcom and service its needs. I am fortunate to have great support from many hard-working and creative people in an area of Ofcom which, if handled poorly, could swamp the Ofcom agenda. I feel that the Content Board is now, as we come to the end of the second quarter of 2004-05, fully operational and fully engaged in its new tasks.

Richard Hooper
25 August 2004

Operating and Financial Review

Operating Review

2003 was the year in which Parliament refined Ofcom's statutory rulebook. It was also the year in which the Ofcom transitional team – some 40 colleagues on one floor of a then building site – began setting up the new organisation.

By the end of the year, the organisation which emerged had a clear set of responsibilities, an Annual Plan and a substantial workload. It also had a headcount which was 25 per cent lower than the total across the five organisations it replaced, an operating budget for 2004-05 which is 5 per cent lower like-for-like and a large majority of colleagues employed on Ofcom terms and conditions.

Starting principles

The establishment of Ofcom presented an opportunity to look afresh at the regulation of the communications sector. Unusually, the desire to seek a different approach was driven not by the recent memory of regulatory failure but by the growing awareness, in industry and in Parliament, of the positive benefits of joined-up regulation in an increasingly converging sector.

The Ofcom transition team faced three overlapping challenges:

1. The numerous logistical tasks associated with bringing together five sets of people, each with well-established and proven skills and working processes.
2. To observe the injunction from Parliament that this was to take place with no interregnum in the passage from old to new and with minimal interruption to the flow of regulatory activity.
3. The intention to use that operational merger of five into one as the opportunity to create a new working culture, with its own distinct philosophy, policies and working processes, to be applied to all areas of Ofcom's activity from the moment it opened its doors on 29 December 2003.

For Ofcom to function effectively it was clear that the senior management team needed to strike the right balance between the pursuit of positive and necessary change and the retention of important and relevant inherited skills and processes.

It became clear that joined-up regulation would be far easier to achieve by enabling the free flow of ideas between colleagues located in a single headquarters building, rather than scattered across the six London properties which Ofcom was due to inherit.

The work of transition therefore focused on two core areas: people and property management.

People

The five organisations Ofcom was to replace had a complement of 1,150 colleagues. In many support areas – Administration, HR, Finance, IS, Facilities – there were natural overlaps, yielding opportunities for efficiency savings. Conversely, within each organisation there lay a degree of collective knowledge and experience without which Ofcom would not be able to function and where retention was a key aim. Finally, Ofcom's new legislative rulebook – doubling the number of inherited statutory duties – also required the addition of skills which were either limited or non-existent within the existing organisations.

Over the summer of 2003, the Ofcom senior management team began the detailed process of assessing the match between the skills required in each new Ofcom role set against the skills available within the five organisations. That assessment took place in four stages over a period of five months, governed by the requirements of employment law and informed by the views of the legacy organisations' management teams and the recognised trades unions.

Outcome

Nearly 200 people were made redundant. The redundancy terms for each individual were not determined by Ofcom; these were agreed directly with the management teams of the previous employers according to each individual's existing contract.

In addition, 50 colleagues returned to the Civil Service on terms each had separately agreed with the Department of Trade and Industry.

More than 700 colleagues joined Ofcom from the legacy organisations.

Ofcom's headcount, as of 31 March 2004, was 850+ including secondees from the DTI. This was a reduction in headcount of just over 25%. This proportion was greater in administrative and support areas, where headcount was reduced by some 34%. Of that 850 total headcount, 85% joined Ofcom from the five organisations Ofcom replaced, while 130 new colleagues (15% of the total) joined Ofcom from the commercial sector.

Salary and benefits

In early 2003 the Ofcom Board decided that Ofcom's approach to reward and remuneration would differ markedly from the approach taken by most of the organisations Ofcom was to replace. Therefore, colleagues joining Ofcom:

- Would not do so on terms derived from the public sector norm;

  Ofcom operates under a performance culture in place of an entitlement culture. Increases in pay depend on attaining agreed levels of performance and achievement; common assumptions within the public sector of an automatic link between length of service and year-on-year pay and grade increases would not apply within Ofcom.

- Would be encouraged to join on Ofcom terms and conditions;

  A single set of terms and conditions, derived from the focus on performance which is common in the commercial sector, will help maximise efficiency and secure best value for money while effectively motivating and retaining colleagues.

- Would be offered pensions on a defined contribution basis (where growth is funded by growth in the capital markets) rather than defined benefit (where the employer must fund all future liabilities);

  The change in pension provision will represent a significant reduction in Ofcom's pension costs over time when compared to the costs incurred by the previous employers.

- Would include people with relevant commercial sector experience in order to develop the necessary mix of new skills;

  Ofcom seeks to be acceptably competitive in salary terms when compared to the prevailing rates in the relevant market for each professional group. However, for senior colleagues in particular, Ofcom cannot and will not match the full scope of remuneration on offer in the commercial sector.

Under employment law, colleagues joining Ofcom from the legacy organisations were also permitted to join while retaining their existing terms and conditions. However, more than 70 per cent chose to join on Ofcom terms; this is also the only option available for new colleagues from the commercial sector. The benefits of a single, cohesive approach to remuneration and contractual terms, coupled with the removal of employer risk and public cost associated with a defined benefit pension, will yield long-term cost and efficiency gains in the future.

Property management

The Ofcom Board concluded early on that the delivery of effective converged regulation would depend in part upon an effective and converged working environment. However, Ofcom inherited a diverse property portfolio, with 36 offices across the UK including six Central London properties. It was clear that:

- Stakeholders expressed a strong preference that Ofcom should be readily accessible.
- The retention of six separate London properties and division of Ofcom's functions across each of those separate premises would undermine the benefits of creating a single and converged organisation.
- The options for re-use of existing London premises were curtailed by the obligation upon Ofcom, under the Office of Communications Act 2002, to avoid disrupting the work of the existing organisations during the transition period.

Consequently Ofcom decided:

- To establish a single London headquarters housing all of Ofcom's core functions at Riverside House.
- To replicate this approach in the establishment of new, converged National offices in Glasgow, Belfast and Cardiff.
- To reduce significantly the number of regional support offices.

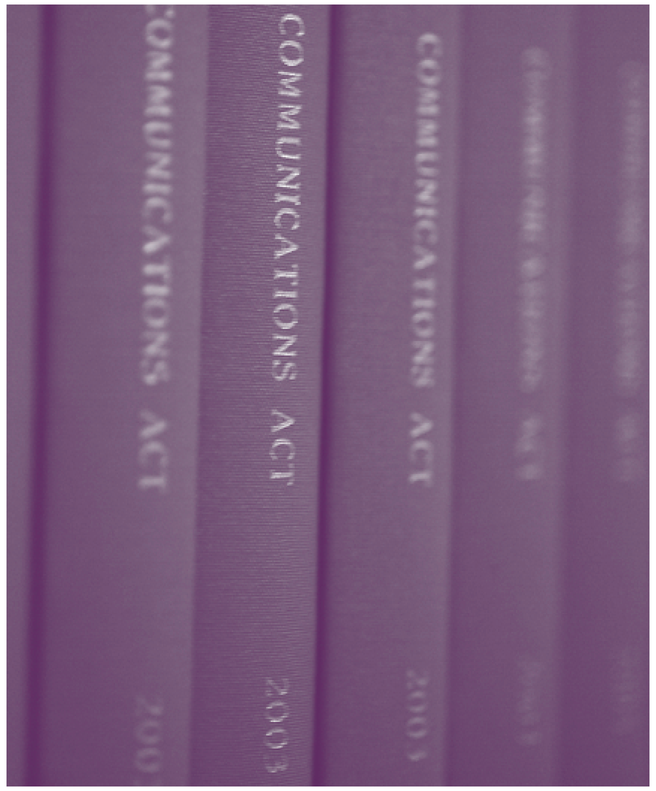
The total property portfolio was reduced from 36 premises to 22. Surplus property still under lease is currently being marketed for disposal.

Information technology

Ofcom inherited a pre-existing joint venture between the Radiocommunications Agency and LogicaCMG. In the Board's view that inherited arrangement did not offer sufficient value for money, nor did it offer Ofcom the appropriate level of flexibility associated with a client-supplier relationship.

By agreement with LogicaCMG, the contract for IT services provision was renegotiated at a significant cost saving to Ofcom. Under the terms of the renegotiated contract, the shareholding in the joint venture company, now held by Ofcom, will be transferred back to LogicaCMG at nominal value during 2004-05.

LogicaCMG were then tasked with integrating the installation of a new IT infrastructure incorporating assets inherited from the previous organisations where appropriate.



Financial Review

Principal activities

Ofcom's duties and powers are derived principally from the Communications Act 2003, which received Royal Assent on 17 July 2003[1]. One of the consequences of the legislation was the transfer to Ofcom of the functions, property, rights and liabilities of the bodies and office holders which had previously regulated the communications sector[2]. This transfer took place on 29 December 2003 when Ofcom assumed its full statutory powers under the Act.

Ofcom is an independent statutory corporation accountable to Parliament. Its specific duties under the Communications Act 2003 fall into six areas:

(a) Ensuring the optimal use of the electro-magnetic spectrum;

(b) Ensuring that a wide range of electronic communications services – including high-speed data services – are available throughout the UK;

(c) Ensuring a wide range of TV and radio services of high quality and wide appeal;

(d) Maintaining plurality in the provision of broadcasting;

(e) Applying adequate protection for audiences against offensive or harmful material; and

(f) Applying adequate protection for audiences against unfairness or the infringement of privacy.

The communications sector has a collective turnover of some £60bn, and in 2003-04 Ofcom and its predecessors raised more than £400m for the public purse from wireless communications and broadcasting companies in spectrum revenues and licence receipts. As published in Ofcom's 2004-05 Annual Plan consultation document, the budgeted running costs of Ofcom amount to £145m in 2004-05. Ofcom has committed to achieving a 5 per cent saving versus this base in 2004-05.

The organisation is comparable in terms of headcount to a small alternative telecommunications network provider. However, while Ofcom's size and cost relative to the sector provides some additional context, the organisation is fully aware of the responsibilities associated with ensuring monies raised from stakeholders are administered, allocated and accounted for appropriately.

Financial framework

Under Paragraph 8(1) of the Schedule to the Office of Communications Act 2002, Ofcom is required to balance its expenditure with its income in each financial year. Sections 38 and 347 of the Communications Act 2003 also require Ofcom to raise income from each of the sectors it regulates such that it covers the costs to be incurred by Ofcom in regulating that sector. Ofcom must also apportion its common operating costs – those which do not relate directly to any one sector – in a proportionate manner across each of those sectors.

Ofcom raises its funds from a number of sources including:

- Television broadcast licence fees.
- Radio broadcast licence fees.
- Administrative charges for electronic networks and services and associated facilities.
- Funding to cover Ofcom's operating costs for spectrum management in the form of grant-in-aid from the DTI.

Grant-in-aid covers the costs of regulating and managing the wireless spectrum. It also covers those statutory functions and duties which Ofcom must discharge under the Communications Act but for which the Act provided no matching revenue stream. Examples include the statutory public interest test for media mergers and ex-post Competition Act investigations in relation to networks and services.

Ofcom sets its licence fees and administrative charges from 2004-05 at a level which is sufficient to cover its cash funding requirements for the financial year.

In the year under review, this financial framework applies only to the post-vesting period from 29 December 2003. In the pre-vesting period to 28 December 2003, Ofcom was funded by a loan from the DTI.

Operating results

The financial results for the year fall into two parts.

The Accounts cover the period from 1 April 2003 when costs were incurred by Ofcom in preparation for the assumption of its statutory duties, followed by the first three months of regulatory activity from 29 December 2003 to 31 March 2004.

Until Ofcom assumed its powers on 29 December 2003, its five predecessors retained their statutory responsibilities and continued to be funded as in the past. During this period, therefore, Ofcom received no income. It funded its establishment, the restructuring costs inherited from its predecessors and its own start-up operating costs from a loan from the Department of Trade and Industry. Repayment of the loan between 2004 and 2008 will be funded by industry licence fees and from the licence fees for wireless spectrum under repayment terms set by the DTI.

In the second period, from 29 December 2003 until the end of the financial year, Ofcom carried forward the funding models and tariff structures used by its predecessors, prior to consulting on a more converged funding model. During this period Ofcom received income from broadcasting licensees, administrative fees from electronic communications providers and the licence fees from wireless spectrum to fund its staff and other operating costs.

Ofcom incurred an operating deficit in the year to 31 March 2004 of £24.1m. A deficit of £22.3m was incurred in relation to the establishment and launch of the organisation in the period to 28 December 2003. A further deficit of £1.8m was incurred in the period from 29 December 2003 to 31 March 2004.

The numbers

UK communications sector turnover – c. £60bn

Revenues for the public purse raised by regulator – c. £400m

Ofcom budgeted running cost 2004-05 – £145m

The funding of spectrum management

The transfer of the functions of the Radiocommunications Agency to Ofcom brought about a change in the funding relationship with the Department of Trade and Industry.

Previously, as the Radiocommunications Agency was itself a part of the DTI, the RA had 'netted' off its operating costs from the total economic rents received from spectrum licensing to the UK Exchequer's Consolidated Fund. By contrast, Ofcom is required to pay all of the proceeds from Wireless Telegraphy Act licensing to the UK Exchequer's Consolidated Fund, then receives back funding to cover its operating costs for managing the spectrum in the form of grant-in-aid from the DTI.

Section 401 of the Communications Act 2003 contains an enabling power to separate future economic rents from Ofcom's operating costs in spectrum management, which would align the system in spectrum with that which already applies transparently in broadcasting. Such changes require Treasury approval.

1 Other statutes also form part of Ofcom's rulebook. They are the unamended parts of:
- The Wireless Telegraphy Act 1949
- The Marine Etc Broadcasting Offences Act 1967
- The Broadcasting Act 1990
- The Broadcasting Act 1996
- The Wireless Telegraphy Act 1998
- The Competition Act 1998
- The Enterprise Act 2002

2 These were the Broadcasting Standards Commission, the Independent Television Commission, Oftel, the Radio Authority and the Radiocommunications Agency.

Exceptional item arising from the establishment of Ofcom

Exceptional charge for surplus property

All the assets and liabilities of the legacy organisations were transferred to Ofcom under the terms of transfer schemes authorised and approved by the Secretaries of State for Culture, Media and Sport, and Trade and Industry under the terms of Schedule 2 of the Communications Act 2003.

As a consequence of headcount reductions and the move to converged locations in London, Glasgow, Cardiff and Belfast, Ofcom had significant inherited property from the five organisations it has replaced which was then surplus to requirements. Wherever possible, leases have been terminated and properties disposed of. This is the case with Oftel's headquarters in Ludgate Hill, the ITC's headquarters in Foley Street and their premises in Winchester. The remaining surplus property is being actively marketed.

Under the terms of FRS 12 a £22.2m charge has been taken for the future costs of this surplus property. The provision has been based on all future premises cash flows up to the earlier of either the first lease break, or the end of the lease, discounted by Ofcom's cost of capital. While it is probable that the longer leasehold properties will be disposed of at some stage, it is not possible to estimate the associated income reliably. Ofcom has therefore taken the prudent approach of not recognising any future income unless commitments are already in place or reasonably certain. Where property is sub-let or assigned in future, the provision will be adjusted and an exceptional credit recognised in Ofcom's accounts. In the meantime, the ongoing cash costs of vacant surplus property will be funded from licence and administration fees and the proceeds of spectrum licensing via grant-in-aid.

The net impact of the full year operating cost deficit of £24.1m and this exceptional item produces a deficit on ordinary activities and exceptional items before interest for the year of £46.3m.

Other relevant changes arising from the establishment of Ofcom

1

Transfer of assets and liabilities from previous organisations into Ofcom

The Secretary of State for Culture, Media and Sport authorised and approved schemes in accordance with Schedule 2 of the Communications Act 2003 to transfer the assets and liabilities of the legacy broadcasting regulators into Ofcom. The Secretary of State for Trade and Industry performed the same function in respect of Oftel and the Radiocommunications Agency. These transfer schemes were implemented on 29 December 2003, the date upon which Ofcom assumed its powers.

Under the transfer schemes, £28.7m of fixed assets were transferred to Ofcom, together with £4.9m of cash balances and other net liabilities of £10.1m. A number of fair value adjustments have been made to the carrying value of the assets and liabilities transferred into Ofcom, the most significant of which are detailed below.

Estimated asset lives of the fixed assets transferred into Ofcom have been harmonised to Ofcom's accounting policies. As a result, the net book value of fixed assets transferred into Ofcom has been reduced by £12.4m. The major component of this write-down is due to Ofcom's adoption of a three-year lifetime for information systems equipment and software, compared to the 5-7 year period used by some of the previous organisations.

£21.5m of Wireless Telegraphy (WT) Act licence fee debtors and creditors were eliminated at vesting date, because Ofcom does not have an obligation to transfer economic benefits until WT Act licence fees have been collected from licensees.

The £10.9m of provisions transferred in from the legacy regulators was largely in respect of redundancy and pension liabilities. £6.3m of payments have been funded by Ofcom and the balance represents the costs of unfunded pensions payable to former Chairmen of the Independent Television Commission and the Radio Authority and former Director Generals of Oftel, together with redundancy and early retirement costs to former employees of Oftel and the Radiocommunications Agency which are payable over the period to 2014.

2

Provision for legal costs

A provision of £1.3m has been made in respect of legal challenges to legacy organisation decisions. The amounts involved are expected to crystallise within 1-2 years.

3

Change to VAT status

HM Customs and Excise has ruled that, as an independent statutory corporation, Ofcom's regulatory functions do not constitute a trading business. The effect of this decision is that Ofcom is unable to recover VAT on expenditure which it incurs as part of its normal operating activities. It is important to note that two of Ofcom's larger predecessors – Oftel and the Radiocommunications Agency – were able to recover VAT as Government agencies have a different status. This means that Ofcom incurs estimated additional costs of approximately £7m in a full year in the regulation of telecommunications and spectrum which must be funded from administrative fees and the proceeds of spectrum licensing via grant-in-aid.

Funding of launch

During the launch period Ofcom drew down on loan funding to cover £19.4m of operating expenditure. A further £26.2m of cash was required to fund capital expenditure as well as the liabilities, including redundancy costs, which transferred to Ofcom on 29 December 2003. The total establishment and restructuring costs, including the £6.6m of revenue and capital spend in 2002-03, were funded from £52.3m of loans from the Department of Trade and Industry. Details of this expenditure are provided below:

Analysis of establishment and restructuring costs

	2002/03 £'000	2003/04 £'000	Total £'000
Staff costs	383	4,685	5,068
Other staff costs[1]	563	2,653	3,216
Professional fees[2]	4,550	8,029	12,579
Office and administrative costs	290	2,273	2,563
Premises	377	878	1,255
Communications and other costs	30	834	864
Total revenue costs	**6,193**	**19,352**	**25,545**
Capital expenditure	434	15,122	15,556
Legacy organisations' liabilities for redundancy		9,679	9,679
Other legacy organisation liabilities		1,450	1,450
Interest received		(44)	(44)
	6,627	**45,559**	**52,186**

1 Other staff costs includes costs of seconded staff, temporary staff and recruitment.
2 Professional fees includes work related to both set-up and regulatory activity prior to 29 December 2003.

Recovery of launch costs

Ofcom's establishment and restructuring loan of £52.3m has to be repaid to the Department of Trade and Industry in the period from March 2004 to March 2008.

The repayment of the loan capital and interest will be funded from the main sources of income for Ofcom. Providers of electronic communication services will fund their proportion of the loan repayment through their administrative fees, and broadcasting licensees will do the same through their licence fees. Grant-funded and commercial activities will contribute to the repayment through grant-in-aid or as part of the commercial fees and charges incurred.

The phasing of repayments is determined under the loan agreement with the DTI. Ofcom has allocated the launch costs for the complete repayment period until March 2008 on a proportionate basis, using the amount of expenditure incurred by the legacy organisations in each sector as the basis for allocation.

Ofcom's revenues

Ofcom's funding for spectrum management activities is ultimately derived from the fees paid by licensees to the UK Exchequer. In total, those monies, collected by Ofcom on the Government's behalf, represent a significant contribution to the public purse.

Collection of Wireless Telegraphy Act licence fees and Broadcasting Act Additional Payments

Under Section 400 of the Communications Act 2003, Ofcom is required to pass all licence fees under the Wireless Telegraphy Act and all Broadcasting Act Additional Payments to the UK Exchequer Consolidated Fund.

In the period from 29 December 2003 to 31 March 2004, Ofcom remitted £65.6m of Broadcasting Act Additional Payments to the Consolidated Fund and £20.0m to the Department of Trade and Industry for transfer to the Consolidated Fund.

Funding in the post-vesting period

Ofcom's funding arrangements for the period from 29 December 2003 to 31 March 2004 reflect a transitional period, after the enactment of the Communications Act, but while funding arrangements put in place by the five predecessor organisations were still partially in effect. Ofcom's own funding arrangements did not come into effect fully until the start of the 2004-05 financial year. The results in the final quarter of the financial year under review are impacted by this transition in funding arrangements, when the licence fees and administrative charges that represent Ofcom's income had effectively been set by the outgoing organisations, as well as by one-off effects of the transition from the legacy organisations.

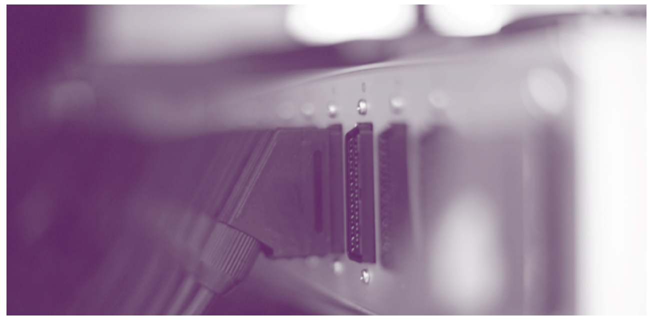
From 29 December 2003, Ofcom received grant-in-aid payments from the Department of Trade and Industry to meet the costs of spectrum management activity and also to repay a proportion of the establishment and restructuring loan. Funding for Ofcom's regulatory activities in networks and services had already been established by Oftel, which set administrative fees for the period 25 July 2003 to 31 March 2004. Most of these fees were invoiced and recognised as income in their entirety by Oftel in the period to 28 December 2003. Accordingly, Ofcom's accounts include negligible income in respect of administrative fees. Instead, Ofcom received the benefit of the networks and services administrative fees via the transfer of Oftel's balance sheet to Ofcom on 29 December 2003 under the terms of the transfer scheme.

Funding for Ofcom's regulatory activities in the broadcast sector came from licence fees which, in the case of television, had been set by the ITC for the period to 31 March 2004, and in the case of radio, by Ofcom's extension of the Radio Authority 2003 tariffs for a further quarter to 31 March 2004.

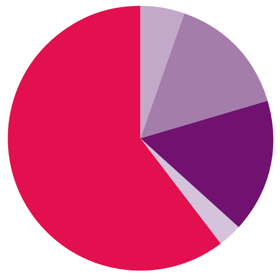
Ongoing funding requirements

For future years, Ofcom will receive grant-in-aid from the DTI and DCMS to cover the costs of spectrum management and the related loan repayments and other activities such as ex-post competition work in networks and services and media literacy. Ofcom will also set licence fees and administrative charges at a level which is sufficient to cover its cash funding requirements in the financial year. For the 2004-05 financial year, these cash funding requirements cover Ofcom's day-to-day operating costs including the cash requirement to cover surplus property costs, plus the interest costs and loan repayments to be recovered from the relevant sector. The fact that in future years Ofcom's grant-in-aid, licence fees and administrative charges will be set at a level to cover both operating expenditure and loan repayments means that Ofcom will generate future surpluses in its annual income and expenditure account which will replenish the current deficit in balance sheet reserves.

The anticipated sources of Ofcom's funding for the 2004-05 financial year are shown in the pie chart. The allocation between regulatory sectors is based on Ofcom's 2004-05 plan and budget and will be adjusted at the end of the year to reflect actual activity levels and costs.



Sources of Funds £ Millions



- Grant-in-aid for Spectrum Management, 99.0
- TV Licence Fees, 26.7
- Networks & Services Admistration Charges, 24.7
- Radio Licence Fees, 4.8
- Other, 8.8

Financial performance by sector in the post-vesting period

Ofcom's activities in the post-vesting period produced a deficit on an accruals basis of £2.2m. Ofcom's accounts provide an analysis of the financial performance by sector in the post-vesting period from 29 December 2003 to 31 March 2004. The results are presented both on an accruals basis, and on the basis of accruals accounting adjusted for the exclusion of non-cash items and the inclusion of cash capital costs, since a cash recovery basis is used by Ofcom for setting licence fees and administrative charges. The basis of cost allocation between regulatory sectors is set down by Ofcom in the Statement of Charging Principles published on 31 March 2004. Using the latter basis, the overall result for the period was a surplus of £1.6m and the surplus or deficit by area of activity is shown below:

	Revenue	Attributable Cash Costs	Surplus/(Deficit) by Area of Activity
Spectrum management	24,416	18,104	6,312
Spectrum efficiency scheme	960	736	224
Networks and services	22	4,193	(4,171)
Broadcasting	5,741	5,711	30
Other	1,813	2,640	(827)
Total	**32,952**	**31,384**	**1,568**

The £6.3m difference between spectrum management income and costs represents grant-in-aid used to repay a portion of the establishment and restructuring loan, as agreed with the DTI. In networks and services there was a £4.2m deficit because Oftel had invoiced and recognised in its accounts fees for the period to 31 March 2004. The Ofcom deficit is offset by the Oftel surplus of £4.3m calculated on the same basis of accruals accounting adjusted for non-cash items. Ofcom anticipates receiving an element of one-off funding from the DTI during 2004-05.

In broadcasting, there was a surplus of £30k. The surplus of £0.2m on Spectrum Efficiency Scheme expenditure will be offset against spending in 2004-05.

Ofcom's other activities generated a deficit of £0.8m. This is a timing difference. Under Ofcom's accounting policies grant-in-aid is accounted for when it is received. Funding to cover Ofcom's ex-post competition activities (£0.9m) in the networks and services sector will be received from the DTI in 2004-05, when a corresponding surplus will be generated.

On an ongoing basis the surplus or deficit position in networks and services and broadcasting at the end of a period will be reflected in the level of administrative charges and licence fees set by Ofcom in future periods.

Investments in fixed assets

During the full year period under review, Ofcom invested a total of £16.0m in fixed assets. £12.4m was invested in the fitting out of Riverside House. A further £2.3m was invested in information systems and equipment, and £1.3m in office and field equipment. This investment was funded primarily from the establishment and restructuring loan from the DTI.

29.12.03

So far.

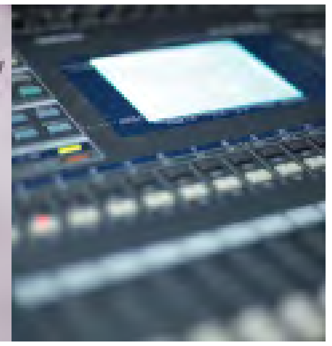
29 December 2003 – 31 March 2004

The period under review includes the first three months of operational activity after Ofcom had assumed its powers on 29 December 2003.

Work on a number of key projects began prior to this date, notably Ofcom's initial consultation on proposals for Spectrum Trading, its role in response to the merger of Carlton and Granada and its review of the wholesale broadband market.

Once Ofcom had assumed its powers, it advanced a number of projects intended to assess the future evolution of the communications sector and to provide a new regulatory frame-work able to meet the challenges arising from that evolution.

The following section sets out the core areas of activity undertaken by each Ofcom Group during the period.



Core Areas of Activity

Strategy and Market Developments

Understanding markets, planning for the future

- Strategic planning and leadership of Strategic Reviews
- Market, audience and consumer research
- Technology strategy, Research and Development
- Specialist economic analysis

Content and Standards

Promoting quality, protecting audiences

- Enforcing broadcast content codes
- Television public service broadcasting and radio format obligations
- Independent and regional production quota compliance
- Consumer information, consumer protection and media literacy

Operations

Sharing spectrum, supporting the public

- Licensing wireless communications services
- Investigating spectrum interference
- Enforcement action against illegal spectrum use
- Advising the public: the Ofcom Contact Centre

Competition and Markets

Furthering choice, stimulating innovation

- Promoting greater competition in broadcasting, telecoms and spectrum
- Investigating competition complaints and disputes
- Broadcast licensing
- Wireless communications frequency planning

External Relations

Parliament, industry and the Nations and Regions

- Ofcom in Wales, Northern Ireland, Scotland and the English Regions
- Parliamentary engagement
- Engaging with industry and trade bodies
- Liaison with Ofcom's independent advisory committees

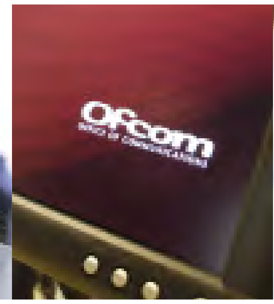
Support Services

Making Ofcom work

- Finance and Secretariat
- Human Resources
- IT and Facilities
- Communications

Strategy and Market Developments

Understanding markets, planning for the future



- Strategic planning and leadership of Strategic Reviews
- Market, audience and consumer research
- Technology strategy, Research and Development
- Specialist economic analysis

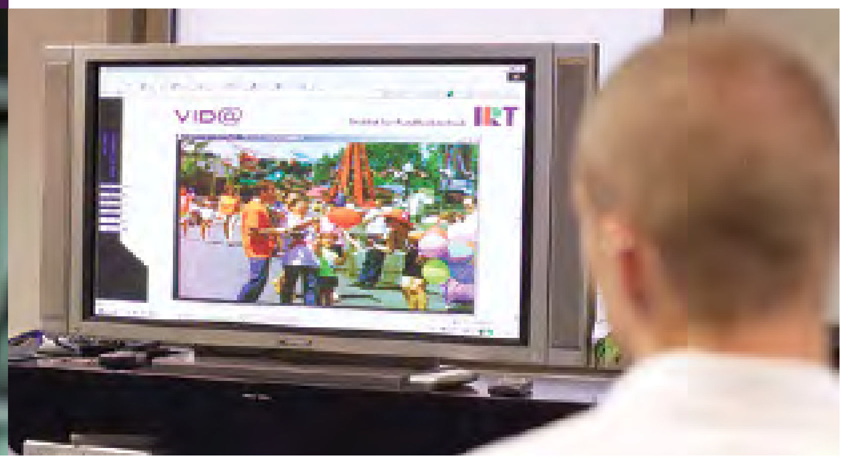
During the period under review the Strategy and Market Developments Group began work in a number of areas which will be carried forward through 2004-05. Those areas are set out below.

2004-05 Annual Plan

Ofcom's 2004-05 Annual Plan was published as a consultation document in January 2004. A consultation tour was held in February with public meetings in Cardiff, Belfast, London, Manchester and Glasgow. More than 85 substantive responses were received; all non-confidential responses were published in full online. The final Annual Plan was published shortly after the period under review.

Strategic Review of Telecommunications

Twenty years after the liberalisation of the UK telecoms sector and more than 12 years since the last analysis of the sector as a whole, Ofcom has embarked on a wide-ranging examination of all aspects of the telecommunications market.



The Review aims:

- To consider the options to improve the value on offer to UK customers by promoting competition and innovation in the telecoms market.
- To identify the most appropriate regulatory strategy to further the interests of both residential and business consumers.
- To identify options to roll back regulation where appropriate.

The Review will include extensive research into the attitudes, needs and expectations of consumers in each of the residential, small business and large business sectors. It will also examine potential barriers to consumers' ability to exercise choice, such as a lack of comparable market information.

The Phase 1 Report was prepared in March 2004 and published shortly after the period under review. It examined the evolution of regulation over the last 20 years and set out preliminary views of the technology and competition challenges likely to emerge between now and the end of the decade. The Report also sought stakeholder responses to five key questions:

- In relation to the interests of citizen-consumers, what are the key attributes of a well-functioning telecoms market?
- Where can effective and sustainable competition be achieved in the UK telecoms market?
- Is there scope for a significant reduction in regulation, or is the market power of incumbents too entrenched?
- How can Ofcom incentivise efficient and timely investment in next-generation networks?
- At various times since 1984, the case has been made for the structural or operational separation of BT, or the delivery of full functional equivalence. Are these still relevant questions?

Phase 2 of the Review will be completed in September 2004. The third and final Phase of the Review, setting out Ofcom's conclusions, will be published at the end of 2004. The Review is intended to inform Ofcom's future approach to the telecommunications sector, including the creation of a new strategic regulatory framework. This framework will set out opportunities to withdraw from regulation, wherever appropriate, as well as identifying areas where regulation is effective and should be retained, or applied in a different manner.

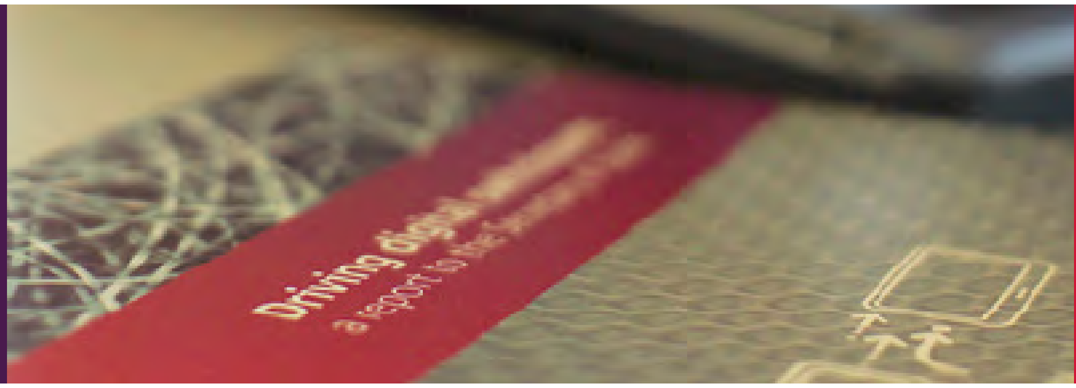
Public Service Broadcasting Review

Ofcom is required by the Communications Act 2003 to conduct a review of Public Service Broadcasting (PSB) television every five years. The summary report of the Phase 1 findings of the Review was prepared in March 2004 and published shortly after the period under review.

The Report included the results of a survey of 6,000 multichannel homes, the analysis of data provided by broadcasters and the contribution of viewers attending a series of regional workshops across the UK.

Phase 1 of the Review showed:

- Strong support for the wider social role of television alongside its importance as a provider of entertainment.
- Impartial and accurate television news is important to individual viewers and society as a whole.
- Recognition of the importance of drama and serious factual programming.
- A strong feeling that PSB ought to be, but is not, providing sufficient innovation and originality.
- A strong view – from both viewers and broadcasting practitioners – that "competition for quality" in the provision of PSB should be retained.



Phase 2 of the Review will be completed in September 2004. The third and final Phase of the Review, setting out Ofcom's conclusions, will be published at the end of 2004. The Review is intended to create a framework within which public service broadcasting will continue to be strengthened and maintained throughout the transition to digital. It will also feed into the Government's review of the BBC Charter.

Digital switchover

The drive towards switchover from analogue to digital TV broadcasting as a means of releasing spectrum for other uses has been a subject of political, industry and consumer debate since the late 1990s. Ofcom presented its Digital Switchover progress report to the Secretary of State for Culture, Media and Sport at the end of March 2004. Key recommendations include:

- Greater certainty should be given over the timing of switchover. An announcement of a timetable would significantly extend digital penetration in the UK and would help allow digital switchover to be achieved between 2007 and the end of 2012.
- Broadcasters will need to have clear and unambiguous incentives to achieve switchover. Ofcom will consider imposing spectrum pricing to sharpen incentives to promote switchover.
- Well before switchover, a mass national advertising campaign should explain to all households that switchover is coming and should attempt to build public support for the objective.
- Active management will be required to complete switchover effectively. A body, termed 'SwitchCo' for simplicity, should be established with the responsibility for ensuring switchover by a specified date.
- Appropriate financial support should be considered to reduce consumer resistance to switchover, although Ofcom believes a decision on this need not be taken immediately.

Media merger public interest test

Ofcom is required to provide the Secretary of State for Trade and Industry with an advisory report on the public interest in media mergers when instructed to do so by the Secretary of State in a formal Intervention Notice. Ofcom's guidance on the media mergers public interest test was published for consultation in January 2004. The final guidance, reflecting the views expressed by stakeholders, was published shortly after the period under review.

Other communications sector research activities

Ofcom is committed to regulation which is evidence-based and driven by research. For much of the period under review, in addition to providing the evidence for the Strategic Reviews, Ofcom collected, analysed and published data and reports to inform and track the industries it regulates. Such publications include regular updates on the UK digital television and broadband markets.

During the period under review, Ofcom also focused on developing its own research and intelligence capabilities and the selection of appropriate external contractors through the Ofcom Supplier Panel procurement process. Projects initiated included research on the directory enquiries market and the impact of food promotion to children.

Technology research activities

Ofcom is committed to staying at the forefront of technology understanding. New technologies such as ultra-wideband (UWB) can dramatically change the way that spectrum is used, changing the services offered and often even changing the way it is regulated. Ofcom needs to understand the regulatory implications of new technologies well in advance of their introduction to ensure an appropriate framework is in place. To achieve this, Ofcom funds a wide range of research projects looking at issues such as the potential interference that might result if new services are introduced, developing new modelling tools that might be needed or helping to understand how signals will propagate under adverse weather conditions. Last year we commissioned 23 such studies with a value approaching £4m.

As well as ensuring the appropriate regulatory environment, Ofcom also engages in research to seek ways to get ever more efficient use out of the radio spectrum. We do this under the framework of the Government-funded Spectrum Efficiency Scheme. Last year's projects included research into internal walls that can selectively block certain frequencies, new radar technologies that use much less spectrum and the funding of the deployment of a trial fixed wireless system in Cambridge. These projects are typically collaborative between industry and academia and result in publications that push the boundaries of spectrum use.

Competition and Markets

Furthering choice, stimulating innovation

- Promoting greater competition in broadcasting, telecoms and spectrum
- Investigating competition complaints and disputes
- Broadcast licensing
- Wireless communications frequency planning

Promoting competition

1. In broadband

Broadband competition is a key focus for the Competition and Markets Group.

During the period under review, broadband-related projects undertaken by the Group included:

- Completion of the Wholesale Broadband Access market review – leading to a range of measures to stimulate greater competition between wholesale providers.
- IPStream/Datastream margin – a targeted regulatory intervention to give greater clarity and certainty to alternative network operators in the wholesale broadband market.
- IPStream/Datastream migration charges – a reduction in the cost to alternative providers of moving their customers from one BT wholesale product to another, bringing greater flexibility to the market.
- Beginning the Local Loop Unbundling market review – first steps in a process intended to broaden infrastructure-level competition between providers.

2. In mobile telecoms

Ofcom completed the consultation, initiated by Oftel, on the wholesale charges levied by mobile operators for connecting calls to their networks. Ofcom published its final decision, setting out a 30 per cent reduction in termination charges, after the end of the period under review.

3. In directory enquiries

Ofcom and ICSTIS (the Independent Committee for the Supervision of Standards of Telephone Information Services) continued to monitor the quality and pricing of the newly-liberalised 118 telephone directory enquiries market. This included analysis of consumer perception and usage patterns as well as 'mystery shopping' research to assess accuracy and real-world cost. Those research outcomes will inform Ofcom's future approach to the 118 market.

4. In television airtime sales

In 2003, the advertising community expressed concern about the implications for the television airtime sales market of the proposed merger between Carlton and Granada. The Competition Commission concluded that a remedy was needed to protect that market. The result was the establishment of the Contracts Rights Renewal (CRR) remedy. Contractual disputes arising under the terms of the remedy are resolved by an Independent Adjudicator – a role appointed by Ofcom but which is independent of all parties.

5. In Voice over Broadband

New Voice over Broadband (VoB) services offer residential and business consumers a number of advantages over traditional switched network voice calls. Calls are made and received using a broadband connection, with an adapter allowing the use of an ordinary telephone handset. However, VoB services also raise a number of regulatory issues regarding lifeline services (for example, access to 999) and numbering. During the period under review Ofcom completed a consultation on proposals to allocate a dedicated number range (056) to VoB services.

6. In spectrum management

Ofcom began a consultation on proposals for Spectrum Trading in November 2003. This closed in February 2004 with the large majority of more than 100 responses expressing support for the proposals. Ofcom has now begun work on the internal processes and systems required to support trading in 2004-05. In March 2004, Ofcom also published an independent economic review of spectrum pricing.

Spectrum planning is subject to international agreement both at the global and the European level. Ofcom's responsibilities for managing the radio spectrum therefore have a significant international element, including the representation of the UK's interests on international forums.

Broadcast licensing

The Communications Act requires Ofcom to update commercial television licensing to incorporate new legislation. It also requires Ofcom to maintain the development of commercial radio while also establishing a new community radio sector.

Ofcom put forward a number of broadcast licensing proposals:

Television

- Proposals to streamline the Channel 3 licence review process.
- New Channel 3 licence valuation methodology, completed after the period under review.

Radio

- Proposals to streamline the FM commercial radio licence award process.
- Announcement of 35 new FM commercial radio licences and proposed timetable.
- New Community Radio licensing process, including award of grants from the Department for Culture, Media and Sport's Community Radio Fund.

Ofcom's criteria for competition investigations

In February 2004 Ofcom set out a new approach to the investigation of competition complaints and disputes. This was intended to reduce unnecessary regulatory intervention and allow better targeting of resources at the critical bottlenecks inhibiting fair and effective competition in the sector.

The new guidelines state that:

- Evidence and approval at senior level is required before Ofcom will formally investigate a complaint or a dispute.
- The scope of an allegation must be clearly defined.
- When it has accepted a complaint or dispute, Ofcom will resolve the issue as quickly as due process allows – typically within four to six months.
- Ofcom may decline to resolve the dispute if alternative dispute resolutions processes could be used instead.

The proposals – which are derived from Ofcom's intention to regulate with a bias against intervention – were well-received by industry. After the period under review, Ofcom published a report on its competition complaints and disputes investigations activity from January to June 2004.

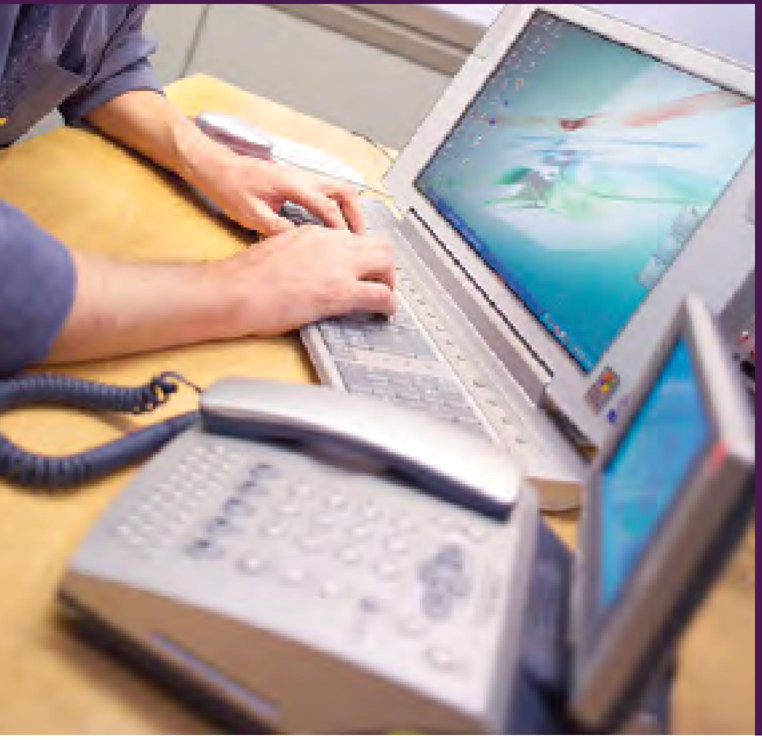
The report demonstrated the positive benefits of a commitment to reject trivial or unsubstantiated requests for intervention while focusing resources on defined areas of substantive concern.

Of 129 requests for investigation received:

- 32 were considered for preliminary investigation (25 per cent of all requests received). Around 80 per cent of these related to telecoms matters; the remainder related to broadcast sector issues.
- Of the 129 requests received, 10 were found to warrant full investigation by the regulator (8 per cent of all requests received). No investigation required Ofcom to take formal enforcement action.

By comparison, over a comparable period in 2003, of the 98 requests for investigation received by the previous regulator Oftel:

- 85 were considered for preliminary investigation (87 per cent of all requests received), all of which related to telecoms matters.
- Of the 98 requests received, 38 were found to warrant full investigation by the regulator (39 per cent of all requests received).



The refusal to support requests for intervention which Ofcom believes to be unwarranted has released internal resources for those important areas where the regulator can and should step in, specifically:

- Local loop unbundling – price and implementation issues;
- Wholesale Broadband Access – margins and costs for competitive providers;
- Charges paid to BT by Carrier Pre-Select operators;
- Wholesale Line Rental – price and implementation issues;
- Leased Lines – price and implementation issues;
- Mobile call termination charges.

Broadcast licensing activity

In television, licences issued include those for national and regional terrestrial analogue broadcasts, digital broadcasts, cable and satellite. During the period under review the following licenses were issued:

- 38 Television Licensable Content Services.
- 1 Digital Television Programme Services.
- 1 Digital Television Additional Services.

Analogue and digital commercial radio licences (both local and national) are advertised in an open competition and awarded on the basis of statutory criteria. Restricted Service Licences (RSLs) are issued on a first-come, first-served basis subject to frequency availability. Licences permitting the broadcast of a radio service on a cable or satellite platform or on a digital radio multiplex are issued on demand subject to the conditions for their issue being met.

During the period under review the following licenses were issued:

- 8 Radio Licensable Content Service licences.
- 73 Restricted Service Licences (short-term).
- 1 Restricted Service Licence (long-term).
- 4 Digital Sound Programme licences.

Mobile and broadband wireless planning and licensing

The frequency planning, licensing and ongoing regulation of commercial mobile radio communication and wireless fixed access networks are the responsibilities of the Mobile and Broadband team within the Competition and Markets Group. During the period under review there were no new awards of licences. Two National Fixed Wireless Access licences were amended or re-issued and one Fixed Wireless Access licence for the Channel Islands and Isle of Man was issued.

Competition and Markets

Regulatory Impact Assessments 2003-04

Consultation document	Date
0845 and 0870 Numbers: Review of retail price and numbering arrangements	26 September 2003
Spectrum Trading	19 November 2003
Wholesale Broadband Access market	16 December 2003
Retail leased line, symmetric broadband origination and wholesale trunk segments markets	18 December 2003
Wholesale mobile voice call termination	19 December 2003
Numbering arrangements for Voice over Broadband services: allocation of geographic numbers for VoB services	24 February 2004

No decisions to which the RIAs relate were taken during the period under review.

Content and Standards

Promoting quality, protecting audiences

- Enforcing broadcast content codes
- Television public service broadcasting and radio format obligations
- Independent and regional production quota compliance
- Consumer information, consumer protection and media literacy

Work during the period under review

Co-regulation of broadcast advertising

Ofcom undertook a public consultation on proposals to establish a new co-regulatory system with the Advertising Standards Authority (ASA) for the future regulation of broadcast advertising. The proposals are intended to establish a one-stop shop approach which is easy for audiences to access, is effective in preventing or addressing problems and is a cost-effective means of regulating.

Broadcasting Code

Ofcom began work on a new Broadcasting Code to replace the six legacy codes of the Broadcasting Standards Commission (BSC), the Independent Television Commission (ITC) and the Radio Authority. The new Code will cover commercial broadcasters, the BBC and S4C on television and radio; it was published for consultation in July 2004 and will take effect from January 2005.

Independent Producer Codes of Practice

The Communications Act requires Ofcom to maintain diversity in programme supply. In January 2004, Ofcom approved the broadcasters' Codes of Practice for commissioning work from independent producers; the Codes were drawn up on the basis of guidance issued by Ofcom in December 2003.

Localness in radio

The Communications Act requires Ofcom to ensure that local commercial radio services contain a suitable proportion of locally-made programmes where required under a station's format; Ofcom published interim guidance on definitions of localness during the period under review.

Electronic Programme Guides (EPGs) Code

The Communications Act gave Ofcom a number of obligations regarding EPGs – the programme information delivered via television set-top boxes.

During the period under review Ofcom began a consultation on a Code governing the prominence of Public Service Broadcasting channels on EPGs and the extent to which EPGs should be capable of use by people who are deaf, visually impaired, or both. Ofcom is also empowered to regulate the terms on which channel providers can gain access to EPGs.

Working with ICSTIS

Under Section 120 of the Communications Act 2003 Ofcom has the power to set conditions for premium-rate telephone services; during the period Ofcom developed its co-regulatory approach with ICSTIS, the body responsible for the regulation of premium-rate telephone services.

Gaelic Media Service

Section 208 of the 2003 Communications Act provides for the establishment of a Gaelic Media Service responsible for the delivery of a wide range of programmes in Gaelic using both conventional broadcast and new media services. Neil Fraser was appointed as Chairman of the Gaelic Media Service in September 2003.

Ongoing work

Broadcast complaints

Viewer and listener complaints about television and radio programmes and advertisements are first assessed by specialists within the Ofcom Contact Centre (OCC). Those which are not resolved by the OCC are then passed to the Content and Standards Group for further investigation.

Programme complaints

Between 29 December 2003 and 4 April 2004, the Content and Standards Group considered a total of 2,660 programme complaints. 1,003 complaints were brought over to Ofcom from the legacy regulators and 1,657 were new complaints passed to the Group from the Ofcom Contact Centre.

Of the Programme Standards cases closed:

- 12 programmes/issues were found to be in breach (51 complaints).
- 12 programmes/issues were resolved (110 complaints).
- 1,193 complaints were found not to be in breach.

Ofcom has delegated certain functions in relation to programme fairness and privacy complaints to the Fairness Committee. The Fairness Committee is chaired by the Deputy Chairman of the Content Board. It adjudicates on more complex fairness and privacy complaints referred to it by the Content and Standards Group.

During the period under review, one case was referred to the Fairness Committee, which was upheld in part. The Executive within the Group considered eight cases, of which one was upheld, one upheld in part and six not upheld.

Advertising complaints

Between 29 December 2003 and 4 April 2004, the Content and Standards Group considered a total of 2,100 advertising complaints. 1,416 complaints were brought over to Ofcom from the legacy regulators and 684 were new complaints passed to the Group from the Ofcom Contact Centre.

Of the Advertising Standards cases closed:

- 26 advertisements/issues were found to be in breach (872 complaints).
- 297 advertisements/issues were found not to be in breach (633 complaints).

Content and Standards
Regulatory Impact Assessments 2003-04

Consultation document	Date
The future regulation of broadcast advertising	27 October 2003
Reporting Quality of Service Information to Consumers	19 November 2003
Draft code on providing television access services	22 December 2003
The regulation of Electronic Programme Guides	16 January 2004

No decisions to which the RIAs relate were taken during the reporting period.

External Relations

Parliament, industry and the Nations and Regions

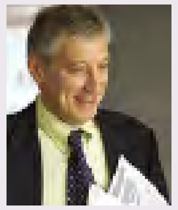
- Ofcom in Wales, Northern Ireland, Scotland and the English Regions
- Parliamentary engagement
- Engaging with industry and trade bodies
- Liaison with Ofcom's independent advisory committees

The Directors, Nations

Simon Crine
England

Vicki Nash
Scotland

Rhodri Williams
Wales



Denis Wolinski
Northern Ireland

Ofcom has a statutory duty under the Communications Act to take into account in its decisions the views and interests of those who live in different parts of the UK.

Ofcom's National and Regional operations are structured to ensure colleagues outside London can draw on the full resources of the whole organisation to tackle issues which affect one part of the UK. Conversely, those operations will also ensure that the views, needs and special circumstances of diverse areas receive full consideration in Ofcom's mainstream considerations.

The External Relations Group is responsible for the management of those functions, as well as the management of Ofcom's relationships with the political and public policy community and with industry stakeholders, both national and international.

Nations and Regions

Through the transition period and beyond Ofcom has sought to bring the same converged approach to communications regulation in the Nations and Regions as it has in London.

As part of the wider rationalisation of its property portfolio, Ofcom acquired three new smaller offices, led by a Director, Nation, in each of Glasgow, Cardiff and Belfast. Ofcom also has a further 18 regional offices for its spectrum management field operations teams.

Advisory Committee for
England

- Suzy Brain England
- Gita Conn OBE JP
- Sue Farrington
- John Hooper CBE
- Derek Inman
- Don Jayasuriya
- Jessica Mann
- Andrew Norton
- Alan Wright

Advisory Committee for
Scotland

- James Hunter
- Fiona McLeod
- Andrew Muir
- Thomas Prag
- Selma Rahman
- Professor Philip Schlesinger
- Joyce Taylor

Advisory Committee for
Wales

- Nick Bennett
- Ian Clarke
- Michael Clarke
- Professor Tony Davies
- Dr Kevin Fitzpatrick
- Julie James
- Evan Jones
- Christine Hall
- Elizabeth Williams

Advisory Committee for
Northern Ireland

- Brian Collins
- Dr David Elliot
- Professor R. Wallace Ewart OBE
- Dr Leslie Orr
- Professor Gerard Parr
- Glyn Roberts

Ofcom National and Regional Offices

Public, Political and Industry Relations

Two teams based in London manage public, political and industry relations, linking as appropriate with the Directors in the Nations. They also coordinate Ofcom's European and international relationships and related activities.

National Advisory Committees

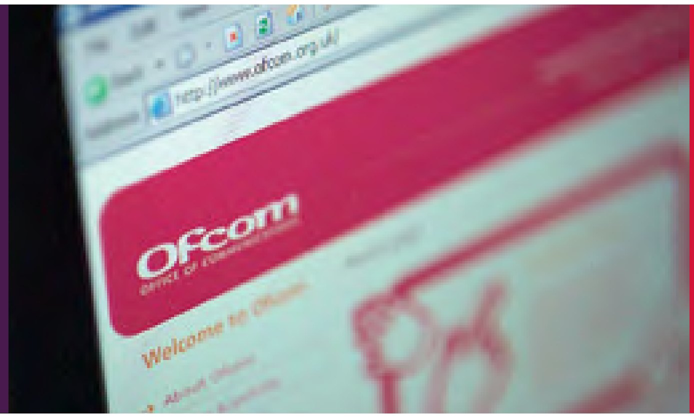
Section 20 of the Communications Act 2003 requires Ofcom to establish National Advisory Committees to represent to Ofcom the interests and opinions of people living in England, Wales, Scotland and Northern Ireland.

The National Advisory Committees will provide Ofcom with detailed and expert insights into the particular challenges faced by citizens and consumers in different parts of the United Kingdom. Relevant issues include broadband rollout, particularly in rural areas, and the National and Regional aspects of public service broadcasting.

Support services

Making Ofcom work

- Finance and Secretariat
- Human Resources
- IT and Facilities
- Communications




Finance

The Finance team is required to identify the financial resources needed for each aspect of Ofcom's many activities to ensure that Ofcom has the funding required. Its role includes:

- Appropriate management of Ofcom's finances and associated due diligence.
- Management of discussions with licensees regarding charging principles for the coming financial year.
- Implementation of fee settlements agreed as a result.
- Collection of licence fees for spectrum and additional payments for broadcasting on behalf of HM Treasury.
- Preparation of Ofcom's Annual Accounts.
- For 2003-04 only, the preparation of Annual Accounts for the organisations which Ofcom has replaced.

Secretariat

The Secretariat provides administrative and governance support to the organisation, led by the Secretary to the Corporation. Its role includes:

- Support for the Ofcom Board, Content Board, the Consumer Panel and other Ofcom Advisory Committees.
- Support for the Executive Committee and a number of other internal decision-making groups.
- Provision of internal advice on administrative law, due process and governance issues.
- Responsibility for Records Management.
- Maintenance of the Registers of Interests and Registers of Gifts and Hospitality.

Human Resources

The HR Group provides specialist advice and support to the organisation on people management matters. Its role includes:

- Development and maintenance of online business support systems allowing line managers to take responsibility for day-to-day HR tasks such as recording annual leave. The adoption of this self-help approach enabled Ofcom to develop an HR function significantly smaller than the five departments it replaced.
- Provision of expert advice to line managers on specific people management issues.
- Provision of Professional Development services to support professional training and continuous learning programmes.

Information Technology

While IT services are provided to Ofcom by LogicaCMG under an outsourcing agreement, Ofcom also maintains a small specialist in-house team both to ensure that the agreement remains operationally effective and to take lead responsibility in setting Ofcom's long-term IT strategy. Its role also includes managing Ofcom's needs in:

- Desktop telephony.
- Mobile telephony.
- Wireless data services.
- Electronic media monitoring.
- Audio-visual presentation.

Facilities

The Facilities team is responsible for the overall management of Ofcom's working environment, including:

- All Ofcom offices across the UK.
- The Ofcom vehicle fleet used by colleagues working in the field.
- The management of all other general physical assets.

Communications

The Communications Group is responsible for all of Ofcom's publications and events, for the management of its relationships with the media and for internal communications within the organisation. Its responsibilities include:

- Provision of specialist communications advice to the Executive Committee and Board.
- Management of the Ofcom Media Office.
- Management of Ofcom's website and intranet.
- Design and production of all public documents.
- Effective internal communications.

Operations

Sharing spectrum, supporting the public

- Licensing wireless communications services
- Investigating spectrum interference
- Enforcement action against illegal spectrum use
- Advising the public: the Ofcom Contact Centre

Ofcom's Operations Group deals directly with the concerns of viewers, listeners and customers. They support the needs of tens of thousands of radiospectrum licensees, from boat owners and minicab firms to mobile phone operators and broadcasters. They also undertake the physically challenging and potentially hazardous work associated with investigating and prosecuting illegal radio stations, as well as dealing with spectrum interference and some national security issues.

The Operations Group consists of three core teams:

- **Licensing team**

  Responsible for the management of more than 250,000 Wireless Telegraphy Act (WT Act) licences across five separate Business Units.

- **Field Operations**

  – Deployed across the UK to provide 24-hour specialist and safety-of-life spectrum monitoring functions.

  – Investigate and resolve interference issues.

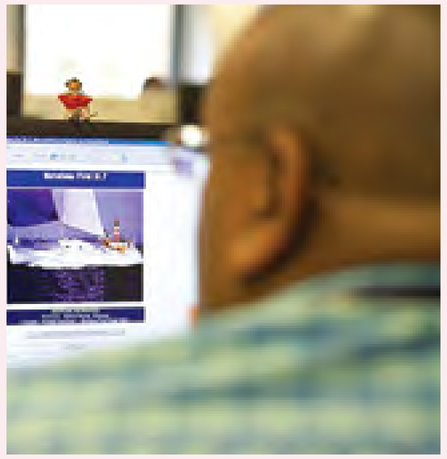
  – Undertake enforcement actions in response to illegal spectrum use.

- **The Ofcom Contact Centre (OCC)**

  Based at Riverside House in London and responsible for the resolution, by specialist advisers, of viewer, listener and customer complaints.

Licensing activity

Sharing spectrum effectively



Licensing activity

Ofcom is responsible for the award and management of licences under the Wireless Telegraphy Acts (WT Acts) and the Communications Act 2003; the award of most WT Acts licences is managed by the Operations Group.

During the period under review, and with the exception of variations to broadcasting licences to reflect the requirements of the Communications Act, there have been no significant consents, variations and revocations of licences. There were also no significant directions made to those operating under licences or those operating under authorisations in pursuance of licence of authorisation enforcement.

Non-discretionary Wireless Telegraphy Act licensing

Ofcom issues around 30 different kinds of WT Act licence. These are generally referred to by the name of the equipment they licence, such as Ship's Radio Licence and Satellite Network Licence.

The licence types are divided into three larger categories: A, B and C.

- Category A are simple licences which involve no frequency assignment, site clearance or international co-ordination.
- Category B are more complex licences which involve frequency assignment but do not involve site clearance or international co-ordination.
- Category C are the most complex licences involving frequency assignment and site clearance and/or international co-ordination.

At the end of the period under review the total number of licences issued was 55,539. Of these:

- 11,178 were Category A licences, 365 of which were issued 29 December 2003 – 31 March 2004.
- 43,842 were Category B licences, 1,020 of which were issued 29 December 2003 – 31 March 2004.
- 519 were Category C licences, 32 of which were issued 29 December 2003 – 31 March 2004.

Key performance indicators (KPIs) are currently in place for each category of licence. These measure days taken from receipt of application by Ofcom to sending a completed licence back to the applicant from Ofcom. These vary according to the licence type.

For Category A licences the KPI is for 100 per cent of valid licence applications for new or varied services to be awarded or rejected (with explanation) within seven days of receipt by Ofcom.

The KPI for Category B licences is 90 per cent of valid licence applications for new or varied services to be awarded, or rejected with explanation, within 21 days; the remainder to be awarded or rejected within 42 days of receipt by Ofcom.

Category C KPI is for 100 per cent of valid licence applications for new or varied services to be awarded or rejected (with explanation) within 42 days of receipt by Ofcom; except, where international clearance is involved, applications to be awarded or rejected within 60 days or an explanation of the delay to be given.

Apart from a brief handover period during the transition from the Radiocommunications Agency to Ofcom in December 2003, all relevant Key Performance Indicators were met.

Ofcom is required to report on its spectrum management activity in detail; the tables which follow set out the non-discretionary WT Act licensing activity undertaken during the period under review.

Table: Spectrum (WT Act) Licences (1 April 2003 – 31 March 2004)

Category A			
Licences that involve no frequency assignment, site clearance or internal co-ordination			
	Licences issued April – Dec 03	Licences issued Jan – March 04	Total on issue as at 31 March 04
PMR Road Construction	0	0	3
PBR UK General	1,277	193	3,136
5.8 GHz	0	65	65
Self-Select (One-way Paging)	270	86	7,019
PBR Suppliers	26	7	447
Police and Fire	2	0	118
Subtotal for Business Radio products	**1,575**	**351**	**10,788**
Radar Level Gauge	7	14	390
Total for Category A	**1,582**	**365**	**11,178**

Category B			
Licences that involve frequency assignment but no site clearance or international co-ordination			
	Licences issued April – Dec 03	Licences issued Jan – March 04	Total on issue as at 31 March 04
Coastal Station Radio (International)	36	3	503
Coastal Station Radio (UK)	34	8	491
Coastal Station Radio (Marina)	26	3	425
Coastal Station Radio (Training School)	13	8	39
Maritime Radio Suppliers Licence	19	0	85
Maritime Navaids and Radar	5	7	83
Differential Global Positioning System	3	0	22
Subtotal for Deregulation & Contracting-Out products	**136**	**29**	**1,648**
PMR Standard – (UK General) only	2	0	303
Interface Requirement 2008	2	0	5
On-site PBR (Speech and Data)	2,032	576	25,026
On-site PBR (Local Communications)	60	17	1,646
On-site PBR (Hospital Paging and Emergency Speech)	4	3	460
On-site PBR (One-way Paging and Speech)	86	31	1,760
Wide-Area PBR (Speech and Data)	1,230	350	11,899
Wide-Area PBR (One-way Paging and Speech)	8	2	326
Wide-Area PBR (Distress Alarms)	2	1	15
National & Regional PBR	5	0	62
Common Base Station Operator	21	11	657
(Band I) and (Sub Band I of Band III) CBS	0	0	13
Public Mobile Data (non-voice)	0	0	4
Public Access Mobile Radio	0	0	5
TETRA Digital PAMR	0	0	2
CDMA Asset Tracker	0	0	1
Band One	0	0	6
Remote Meter Reading	2	0	4
Subtotal for Business Radio products	**3,454**	**991**	**42,194**
Total for Category B	**3,590**	**1,020**	**43,842**

Category C			
Licences that require frequency assignment and site clearance and/or international co-ordination			
	Licences issued April – Dec 03	Licences issued Jan – March 04	Total on issue as at 31 March 04
Fixed Links	22	14	376
Permanent Earth Station	15	18	143
Total for Category C	**37**	**32**	**519**

Partners

Most Category A Licences are dealt with by the Radio Licensing Centre (RLC), responsible for amateur radio and ships' radio. The Civil Aviation Authority (CAA) issues aircraft licences and the JFMG (Joint Frequency Management Group) issues licences and authorisations for outside broadcasts and programme-making.

Non-discretionary Spectrum Licences December 2003 – March 2004			
Partners' Activity	Licences issued April – Dec 03	Licences issued Jan – March 04	Total on issue as at 31 March 04
Radio Licencing Centre (RLC) issues Licences for CB Amateur & Maritime	16,664	12,526	147,307
JFMG issues Licences for Programme-Making & Special Events	1,762	539	2,514
CAA issues Licences for Aeronautical	2,480	438	11,742
Total	**20,906**	**13,503**	**161,563**

Total Number of Licences – all categories	**217,102**

Key Performance Indicators		
	KPI Target	KPIs achieved Jan – March 04
Category A Licence	100% in 7 days	80.0%
Category B Licence	90% in 21 days	87.4%
	10% in 42 days	10.5%
Category C Licence	90% in 22 days	79.4%
	10% in 60 days	7.4%

Partners' Performance	
	KPIs achieved Jan to March 04
RLC	100%
JFMG	100%
CAA	100%

Fixed Links

There are 400 Fixed Links licensees. Their needs change constantly; the activity level therefore relates to the number of links offered to the licensees, rather than the number of licences issued or links accepted.

During the period under review, 11,290 links were assigned or amended and overall KPI targets were met.

Electronic systems

Ofcom has three entirely electronic licensing systems.

Eflatco licenses transportable earth stations satellite uplinks. During the period under review 2,747 individual uplinks were authorised.

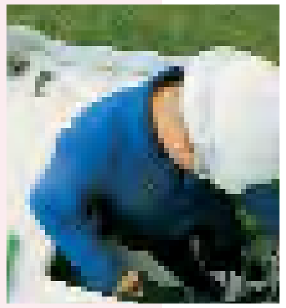
Satclear licenses satellite systems and gives individual clearance to installations. During the period under review, there were 48 licences and 15,395 total installations registered.

In January 2003, 5.8 GHz systems went live to support Ofcom's announcement of fixed wireless broadband access for remote communities. By the end of the period under review 46 providers had registered for licences.

Enforcement, monitoring and interference

Keeping the spectrum clean

Spectrum interference can affect many kinds of services including those essential for safety of life. Ofcom maintains 24/7 monitoring with field operations colleagues constantly on call.



Illegal radio station transmitters are often concealed on top of high-rise blocks. Many are bolted to lift shaft equipment, boilers or communal aerials. Some are also booby-trapped.

Enforcement, monitoring and interference

One of Ofcom's primary functions is keeping the spectrum clean by resolving interference problems and taking action against illegal transmissions.

Enforcement activity is undertaken by Ofcom's Field Operations team, with local offices across the UK and main centres in Glasgow, Belfast, Cardiff, Kenley in Surrey and Haydock in Merseyside as well as at Ofcom's headquarters in London. Ofcom also operates monitoring services at Baldock in Hertfordshire, which have benefited from major investment in remote monitoring and direction finding. These are particularly valuable where safety-of-life services are involved.

Illegal broadcasting continues to be a major problem, especially in the south-east of England. During the period under review, nearly 300 operations were undertaken against illegal broadcasters, resulting in 24 successful prosecutions across the UK. Co-operation with local authorities, the police and other law enforcement agencies continues.

The Field Operations team has continued the Stewart audits of mobile phone and TETRA masts. During the period under review four audits were completed, with the highest being 1/772 of the ICNIRP levels. Ofcom has written to all local authority Heads of Planning inviting interest in the round of audits for 2004-05.

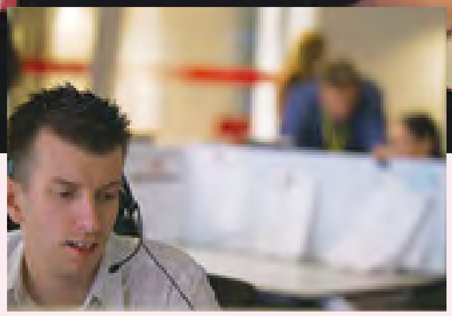
Work Programme Activity/Incident	Period 1 Jan 2004 – 31 Mar 2004	Period 2003-04 Reporting Year
Interference investigation requests received	1,007	3,557
Baldock: Reports received of serious spectrum interference	557	2,348
Interference investigation cases closed	775	2,852
Spectrum assignments completed	1,599	6,739
Enforcement operations against unlicensed and criminal activity	403	1,344
Radio system compliance inspections completed	1,413	5,148
Successful prosecutions for criminal spectrum activity	26	81
Unsuccessful prosecutions for criminal spectrum activity	0	0

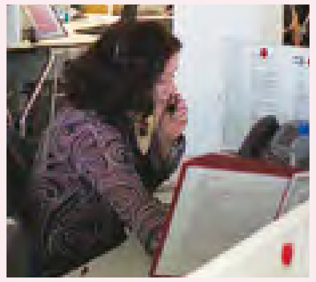
Quality of Service Targets		Achievement 1 Jan 2004 – 31 Mar 2004	Achievement 2003-04 Reporting Year
QST 1	100% of reports of interference to Safety-of-Life radio systems to be investigated within 24 hours	98.28% (57 out of 58)	97.18% (172 out of 177)
QST 2	a) 98% of reports of interference to commercial/professional radio systems to be investigated within five working days	98.10% (155 out of 158)	97.95% (670 out of 684)
	b) 100% of such reports to be investigated within ten working days	99.38% (157 out of 158)	98.98% (677 out of 684)
QST 3	a) 98% of reports of interference to domestic broadcast reception to be investigated within one month	98.94% (655 out of 662)	99.50% (2,578 out of 2,591)
	b) 100% of such reports to be investigated within two months	99.85% (661 out of 662)	99.92% (2,589 out of 2,591)
QST 4	a) 90% of customers requesting interference investigation to be provided with case progress report within ten working days of start of investigation	99.51% (806 out of 810)	99.32% (2,920 out of 2,940)
	b) 100% of such customers to be provided with case progress report within 20 working days of start of investigation	99.88% (809 out of 810)	99.69% (2,931 out of 2,940)

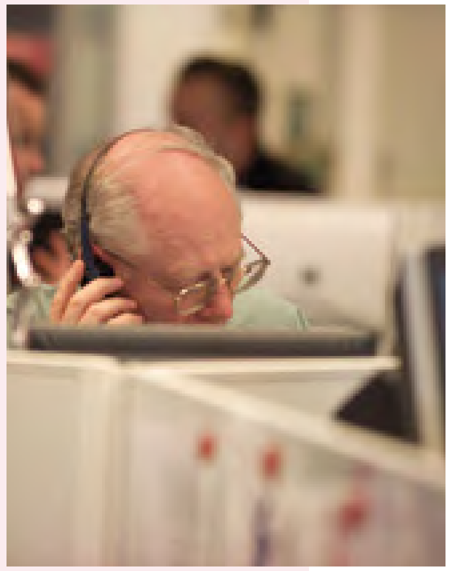
The Ofcom Contact Centre

Supporting the public

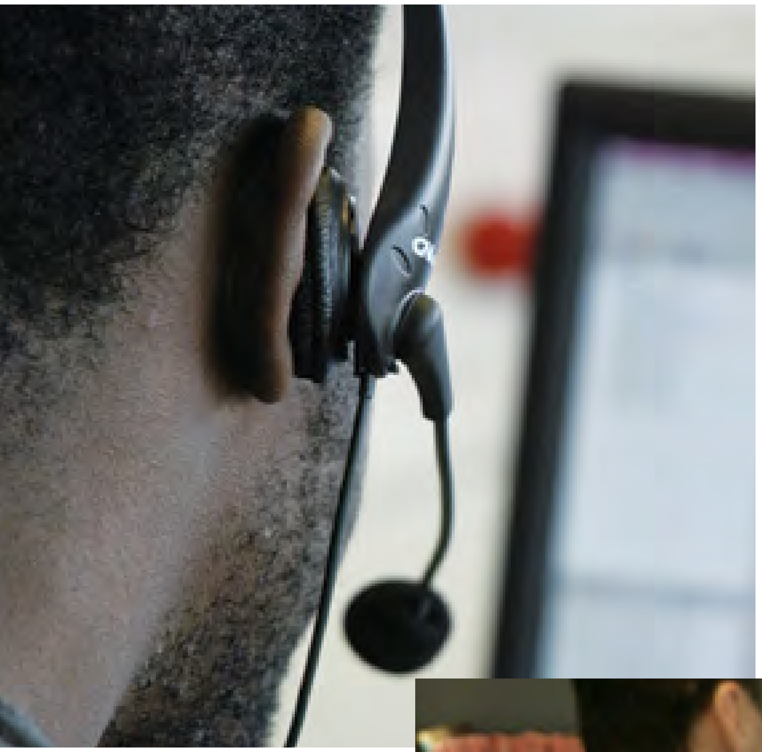
The Ofcom Contact Centre (OCC) deals with questions and complaints from a broad range of viewers, listeners, customers of telecoms companies and users of wireless communications services.







The Ofcom Contact Centre



During Ofcom's early operational phase (29 December 2003 – 31 March 2004) the OCC received 50,000+ telephone enquiries and received 13,000 emails, letters and faxes. The OCC was asked by callers or correspondents to deal with around 37,000 separate cases and complaints. Of those:

- 23,000 related to telecommunications (64%).
- 5,000+ related to broadcasts (15%).
- 4,000+ related to spectrum licensing (11%).
- 3,000+ were general enquiries (10%).

Colleagues within the OCC resolved 87 per cent of all calls, emails, letters and faxes without recourse to other parts of Ofcom. The rest were resolved within other functions across Ofcom. Cases assigned elsewhere within Ofcom are tracked by the OCC through to ultimate resolution.

Telecommunications

The majority of customer complaints in telecommunications related to billing accuracy. A minority of enquiries related to other issues such as unsolicited and nuisance calls and malicious calls.

Where appropriate OCC will meet with companies to discuss ways in which their service to customers can be improved. However, the operational phase of the period under review is short and it would be premature to draw any firm conclusions from the data available.

Broadcast

In broadcasting, of the complaints received, 60 per cent related to television and radio programmes and 40 per cent related to television and radio advertisements. The greatest cause for complaint in programmes was material which viewers or listeners found harmful or offensive, including bad language. Complaints about broadcast advertising mainly related to harm and offence or advertisements which were claimed to be misleading.

We received 5,000+ telephone enquiries and written complaints and queries, of which;

- 2,000+ complaints were received on TV and radio advertisements.
- 3,000+ complaints were received on TV and radio programmes.

Spectrum Licensing

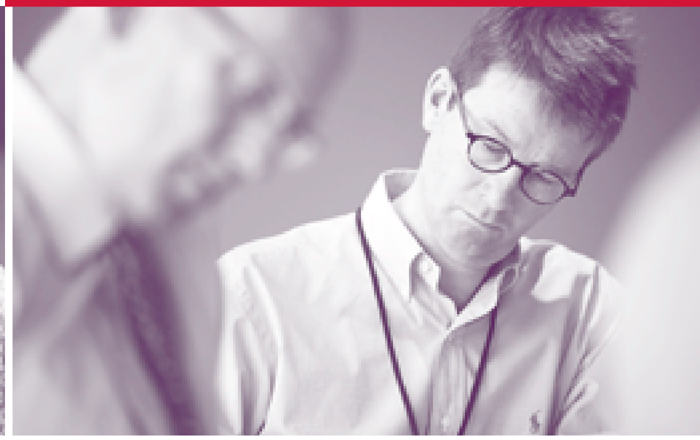
The OCC spectrum licensing team dealt with a total of 4,000+ enquiries. These related to:

- Guidance for wireless communications users on WT Act licensing issues.
- WT Act licence fee queries.
- Calls regarding Ofcom's online Sitefinder service, which enables the public to identify the location of mobile phone base stations by postcode.




Statement of Accounts and Corporate Governance






Foreword

Report of the Board

The Board presents its report and the audited financial statements for the year ended 31 March 2004.

Statement of Accounts

This Statement of Accounts has been prepared in accordance with Schedule 1 of the Office of Communications Act 2002 and as directed by the Secretaries of State for Trade and Industry and for Culture, Media and Sport. The Accounts cover the period from 1 April 2003 to 28 December 2003 when costs were incurred by Ofcom in preparation for the assumption of its statutory duties, followed by the first three months of regulatory activity from 29 December 2003 to 31 March 2004.

Principal activities

Ofcom is a statutory corporation without shareholders, established under the Office of Communications Act 2002.

Ofcom is empowered, under the Communications Act 2003, to regulate and license television, radio, the use of the radiospectrum and telephony in accordance with the duties imposed upon it under the Act.

Operating and Financial Review

The Chairman's Message on page 2, the Chief Executive's Report on page 4 and the Operating and Financial Review on page 12 form part of this report and provide information on the activities of Ofcom during the year. The financial statements of Ofcom are set out on pages 86 to 111.

External auditors

The Comptroller and Auditor General, whose staff are the National Audit Office (NAO), is appointed as Ofcom's external auditor under the Office of Communications Act 2002. The cost of the statutory audit for 2003-04 was £148,000. The NAO is also undertaking a value for money review of the approach of the previous organisation Oftel to liberalising the Directory Enquiries market and the extent to which the expected outcomes have been achieved for consumers. The NAO expects to publish its report by the end of 2004.

The Board

The Board has full responsibility for deciding and operating Ofcom's affairs. The details of the Board Members are set out on pages 64 to 65. Details of Members' remuneration are set out on pages 78 to 83.

Members' interests

Ofcom embraces full disclosure of Members' interests.
The details of these can be found online at **www.ofcom.org.uk**.

Employment policies and training

Ofcom is an equal opportunities employer and actively seeks to recruit colleagues from all cultural and ethnic backgrounds or with a disability. These policies are consistent with the requirements of employment law, and in particular with legislation aimed at eliminating discrimination including the Race Relations (Amendment) Act 2001 and the Disability Discrimination Act 1995.

Post balance sheet events

There have been no significant post balance sheet events between the end of the period under review and the date of issue of this Annual Report and Accounts.

Colleague involvement and consultation

The quality, commitment and effectiveness of Ofcom's colleagues are crucial to its success.

Ofcom informs and consults its colleagues through:

- The Ofcom intranet available to all colleagues in all of Ofcom's offices.
- Presentations hosted by senior managers during which new strategic initiatives are explained to colleagues.
- Regular inter-group meetings both to listen to colleagues and to disseminate information.
- Colleagues' consultation forum.
- Plans for trade union recognition.

Going concern

Based on normal business planning and control procedures, the Board has a reasonable expectation that Ofcom has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going-concern basis for preparing the financial statements.

David Currie
Chairman

Stephen A. Carter
Chief Executive

25 August 2004

St Mungo's
1000 beds and more for London's homeless

Charitable donations

Ofcom has chosen to play a positive role in its London locality. Within the Borough of Southwark, Ofcom has chosen the St Mungo's organisation for the homeless as its nominated voluntary organisation.

The Ofcom Board has decided that it would not be appropriate for executives to retain gifts with a value greater than £25; instead, organisations wishing to make a courtesy gift to an Ofcom executive (for example, a speaker's fee) are requested to pay the equivalent as a charitable donation to St Mungo's.

The relationship with St Mungo's was formalised in December 2003; by the end of the period under review Ofcom had passed almost £6,000 in charitable donations to the organisation.

"St Mungo's would like to thank everyone at Ofcom for your generous support for our work. It really has helped us to make a lasting difference to the lives of hundreds of homeless and vulnerable people in London."

Charles Fraser
Chief Executive,
St Mungo's

The Ofcom Board

1. Millie Banerjee CBE (age 58)

Millie Banerjee CBE is a Non-Executive Member of Ofcom. She holds several non-executive appointments including membership of the Strategy Board of the Cabinet Office and Non-Executive Director of the Strategic Rail Authority. She is also a Commissioner for Judicial Appointments. She is the vice-chair of the Carnegie UK Trust. Millie Banerjee is Chairman of the Remuneration Committee and sits on the Finance Committee.

2. Stephen A. Carter (age 40)

Stephen Carter is the Chief Executive of Ofcom. He is the organisation's Accountable Officer and chairs the Executive Committee. Previously Stephen was Managing Director and Chief Executive at J Walter Thompson UK Limited and Managing Director and Chief Operating Officer of NTL UK Group.

3. David Currie (age 57)

David Currie is Non-Executive Chairman of Ofcom. David Currie has been Dean of Cass Business School at City University since January 2001. He was Professor of Economics at London Business School from 1988 to 2000 and Deputy Dean from 1992 to 1995 and again in 1999-2000. He sits on the cross-benches in the House of Lords as Lord Currie of Marylebone. David Currie sits on the Remuneration and Audit Committees of Ofcom.

4. David Edmonds CBE (age 60)

David Edmonds CBE is a Non-Executive Member of Ofcom. He was Director General of Telecommunications at Oftel, the UK telecoms regulatory agency, from 1998 to December 2003. He is Chairman of the Board of NHS Direct, a Non-Executive Director of the Legal Services Commission and a Non-Executive Director of Hammerson Plc. David Edmonds is Chairman of the Finance Committee.

5. Ian Hargreaves (age 53)

Ian Hargreaves is a Non-Executive Member of Ofcom. Since January 2003, he has been Group Director, Corporate Affairs at BAA plc, but has retained his position as Professor of Journalism at Cardiff University. He has been a regular contributor to Radio 4, Channel 4, the *Financial Times* and other papers. Ian Hargreaves is Co-Chairman of the Radio Licensing Committee.

6. Richard Hooper (age 64)

Richard Hooper is Deputy Chairman of Ofcom and Chairman of the Content Board. He is also Managing Partner, Hooper Communications; Senior Non-Executive Director of T&F Informa plc; a member of the advisory board of Terra Firma Capital Partners, and of the Environment Panel of Waste Recycling Group plc. Richard Hooper sits on the Remuneration and Audit Committees and is Chairman of the Content Sanctions Committee.

7. Kip Meek (age 49)

Kip Meek is Senior Partner, Competition and Content. Prior to joining Ofcom, Kip Meek was Managing Director of Spectrum Strategy Consulting, and one of its two founders. His consulting career focused on major decisions in the communications industry, particularly those that involved integration of the media, telecommunications and information sectors. Kip Meek is Co-Chairman of the Radio Licensing Committee.

8. Sara Nathan (age 48)

Sara Nathan is a Non-Executive Member of Ofcom. She is also a Member of the Human Fertilisation and Embryology Authority, Member of the Criminal Injuries Compensation Appeal Panel, Member of the Regulatory Decisions Committee, Financial Services Authority and Member of ICSTIS, the premium rate regulator. Sara Nathan is a member of the Audit Committee, Chairman of the Fairness Committee and Deputy Chairman of the Content Board.

9. Ed Richards (age 39)

Ed Richards is Senior Partner, Strategy and Market Developments. Ed Richards was previously Senior Policy Adviser to the Prime Minister for media, telecoms, internet and e-government. He has been Controller of Corporate Strategy at the BBC, worked in consulting at London Economics Ltd, been an adviser to Gordon Brown MP and worked on programmes for Channel 4 as a researcher with Diverse Productions Ltd.

Corporate Governance

1 April 2003 – 31 March 2004

The Combined Code on Corporate Governance, appended to the Listing Rules of the Financial Services Authority, is a set of principles of good governance and a code of best practice.

The Combined Code does not apply to Ofcom as Ofcom is an independent statutory corporation. However, its principles provide a useful benchmark for all bodies wishing to make a statement about their corporate governance performance. Ofcom has worked towards compliance with the main principles of the Combined Code during the period 1 April 2003 until 31 March 2004; it has adopted the principles of the Code where it was either capable of doing so, or it was appropriate to do so, given its status as an independent statutory corporation and given the circumstances of transition.

Board Members' remuneration

Details of Members' remuneration are set out on pages 78 to 83.

Board

The Ofcom Board comprises both Executive and Non-Executive Members. The Chairman and Non-Executive Members of the Ofcom Board are appointed jointly by the Secretaries of State for Trade and Industry and for Culture, Media and Sport for a period of between three and five years. In this capacity the Departments have effectively carried out the role of a Nominations Committee.

The Chief Executive of Ofcom is appointed by the Chairman and the independent Non-Executive Members; the other Executive Members are appointed by the Board of Ofcom on the recommendation of the Chief Executive. Members' biographical details are set out on page 65.

Ofcom has adopted a unitary Board model. The Board consists of six Non-Executive Members including the Chairman, who is responsible for running the Board, and three Executive Members including the Chief Executive. The Board is responsible and accountable for the discharge of Ofcom's statutory functions and provides strategic leadership and manages overall control of Ofcom's activities. Members' duties and responsibilities are set out in a Members' Code of Conduct. A register of Members' interests is available on the Ofcom website. For the purposes of compliance with the Combined Code:

- The Board considers all of the Non-Executive Members to be independent of management and free of any business or other relationship which could materially interfere with the exercise of their judgement.
- The Board believes that the Members have, between them, a wide range of experience which ensures an effective Board to lead and control Ofcom.
- The Non-Executive Members comprise a majority of the Board. Richard Hooper, the Deputy Chairman, is regarded as being the senior Non-Executive Member for the purposes of the Combined Code.
- On appointment all Members are given a full induction on their responsibilities and thereafter receive further guidance and briefings as and when required.
- The Board meets at regular intervals during the year. The attendance records of Board Members are available on Ofcom's website. The Board reserves certain matters to itself but otherwise delegates specific responsibilities to senior managers and committees. The role of executive management is to implement Board policies.
- The Board is supplied in a timely manner on a regular basis with information in a form and of a quality appropriate to enable it to discharge its functions.
- All Members have access to the Secretary to the Corporation, who is responsible to the Board for ensuring that correct rules and procedures are followed. All Members have access to advice from independent professionals at Ofcom's expense.

The Board's evaluation of its first year of performance was carried out during April 2004.

In general terms, the Chairman manages the Board to ensure that:

- Ofcom has appropriate objectives and an effective strategy.
- The Chief Executive's team is able to implement the strategy.
- There are procedures in place to inform the Board of performance against objectives.
- Ofcom is operating in accordance with the highest standards of corporate governance.

As a statutory corporation, the principles and provisions of the Combined Code in respect of relations with shareholders are not directly applicable; however, Ofcom's Annual Report is sent to the Department of Trade and Industry who lay copies of it before each House of Parliament, to which Ofcom is accountable.

Board Committees

In the exercise of its powers under the Office of Communications Act 2002, the Board delegates certain of its responsibilities to the executives within Ofcom and certain responsibilities to Board Committees with clearly defined authority and terms of reference. The composition and main functions of these Committees are described below.

The Executive Committee

The Executive Committee ('Exco') was established in April 2004 and is the senior management team responsible for running Ofcom. It is responsible for the management of the overall direction and strategy of the organisation, including the setting of internal organisational priorities, the management of Ofcom's operational resources and activity and the review of major projects. Exco meets weekly. The members of Exco are:

- Stephen A. Carter (Chairman)
- Robin Foster
- Graham Howell
- Peter Ingram
- Sandra Jenner
- Kip Meek
- Ed Richards
- Tony Stoller
- Kate Stross

Other senior Ofcom colleagues are invited to attend meetings of Exco on an ad-hoc basis.

The Content Board

The role and remit of the Content Board are set out in the report from the Chairman of the Content Board on page 8. The Members of the Content Board are:

- Richard Hooper (Chairman)
- Sara Nathan (Deputy Chairman)
- Sue Balsom
- Floella Benjamin OBE
- Kevin Carey
- Jonathan Edwards CBE
- Pam Giddy
- Rosemary Kelly
- Matthew MacIver
- Kip Meek
- Adam Singer
- Tim Suter
- Kath Worrall

Non-Executive Members of the Content Board were appointed initially for a period of two years in May 2003 which, in May 2004, was extended by an additional year. The Content Board meets monthly. Kip Meek and Tim Suter are the only Executive Members of the Content Board.

The Audit Committee

The Audit Committee comprises three Non-Executive Members of the Ofcom Board and an independent external non-executive Chair:

- Anne Bulford (Chairman)
- David Currie
- Richard Hooper
- Sara Nathan

The Committee met for the first time in September 2003. Ofcom made the decision to have an external independent Chair of the Audit Committee; Anne Bulford is the Director of Finance and Business Affairs at the Royal Opera House. Ms Bulford satisfies the requirement under the Combined Code that one Member of the Committee has relevant financial experience. The additional requirements of the Combined Code are met to the extent that three Members of the Committee are independent Non-Executive Members of the Ofcom Board.

The Chief Executive and Finance Director are invited to attend Committee meetings, as are internal and external auditors.

The Chairman of the Audit Committee reports the outcome of Audit Committee meetings to the Ofcom Board through the Chairman of Ofcom, David Currie.

The main duties of the Audit Committee are to:

- Review and direct the internal audit function and the appointment of the internal auditors.
- Review the nature and scope of the external audit and the findings of the external auditors.
- To monitor and review, on behalf of the Board, the effectiveness of the systems of internal control.
- To monitor and review, on behalf of the Board, the integrity of the financial statements, Annual Plan and Accounts.
- To continually review the scope and results of both internal and external audits.

Non-Board Committees

The internal audit function is carried out independently from Ofcom by KPMG. The Audit Committee believes it is appropriate for the internal auditors, in addition, to provide Ofcom with specific advice on internal risks. The provision of other services by KPMG to Ofcom is decided on a case-by-case basis.

The external audit function is carried out by the National Audit Office.

Meetings are held not less than three times a year. The terms of reference are available on the Ofcom website.

The Remuneration Committee

The Remuneration Committee consists of three Non-Executive Members of the Ofcom Board:

- Millie Banerjee CBE (Chairman)
- David Currie
- Richard Hooper

The Chief Executive and the HR Director attend meetings at the invitation of the Remuneration Committee.

The Committee advises Ofcom on the remuneration and terms and conditions of service for the Chief Executive, other Executive Members of the Board and Members of the Executive Committee. The Committee oversees the process for determining the terms and conditions of all other Ofcom colleagues.

The Remuneration Committee meets as and when required. The Chairman of the Remuneration Committee reports the outcome of the Remuneration Committee meetings to the Board.

The remuneration of Non-Executive Members of the Ofcom Board is determined by the Secretaries of State and is set out in detail in note 4 to the Remuneration Report. Should it be necessary for Ofcom to consider any aspect of Non-Executive Member remuneration then a sub-Committee of the Remuneration Committee will be established consisting of Stephen Carter and other executive colleagues, which will meet and report directly to the Board. Consequently, no Board Member is involved in the setting of his or her own remuneration.

The Remuneration Report on page 78 sets out Ofcom's application of the relevant principles of the Combined Code.

The Finance Committee

The Finance Committee consists of five Members, including at least two independent Non-Executive Members of the Ofcom Board, as well as the Chief Executive and the Finance Director. The Members of the Committee are:

- David Edmonds CBE (Chairman)
- Millie Banerjee CBE
- Stephen A. Carter
- David Currie
- Kate Stross

At the invitation of the Committee, the Ofcom Financial Controller also attends meetings and provides advice on financial reporting.

The Finance Committee meets as and when required and advises Ofcom on all day-to-day financial issues, including the evaluation of high-value capital and revenue projects and the assessment of management accounts and financial reports. It sets budget policies and recommends long-term annual revenue and capital budgets. It considers Ofcom's financial performance on a quarterly basis and approves significant expenditure falling outside annual budget plans.

The Consumer Panel

Section 16 of the Communications Act 2003 requires Ofcom to establish the Ofcom Consumer Panel.

Independent of Ofcom and operating at arm's length from it, the Panel exists to advise Ofcom on consumer interests in the markets it regulates. The Members of the Consumer Panel are:

- Colette Bowe (Chairman)
- Ruth Evans (Deputy Chairman)
- Azeem Azhar
- Fiona Ballantyne
- Nainish Bapna
- Roger Darlington
- Simon Gibson OBE
- Graham Mather
- Kevin McLaughlin
- Kate O'Rourke
- Bob Twitchin

While Ofcom provides the Consumer Panel with operational support, the Panel holds its own budget and sets its own priorities on the basis of its statutory remit.

In March 2004, towards the end of the period under review, Ofcom and the Consumer Panel jointly agreed a Memorandum of Understanding. This memorandum established the principles that both bodies agreed to adopt in their relations and dealings with each other and affirms the independence of the Panel from Ofcom.

The Consumer Panel has published its own Report on its activities. Further details of its work can be found online at **www.ofcomconsumerpanel.org.uk**.

The Committee for Older and Disabled Persons

Section 21 of the Communications Act 2003 requires Ofcom to establish a Committee to provide Ofcom with advice about the interests and opinions of the elderly and people with disabilities.

The Committee met for the first time in May 2004.
The Members of the Committee are:

- Mike Whitlam CBE (Chairman)
- Janet Askham
- Lord Carter
- Simon Cramp
- Gareth Davies
- Caroline Ellis
- Baroness Sally Greengross OBE
- Fred Heddell
- Jonathan Kaye
- Lydia Thomas
- Ross Trotter

The Advisory Committees for the Nations and Regions

The details of these Committees are set out on page 39.

Public and Parliamentary Accountability

Ofcom is accountable to Parliament and is also committed to transparency and full public disclosure wherever possible within the bounds of commercial confidentiality.

The following lists the Parliamentary and public appearances of the Ofcom Chairman, Chairman of the Content Board and Ofcom Chief Executive during the period under review.

David Currie

Briefings to Parliament April 2003 – March 2004

October 2003	All Party Parliamentary Media Group
	All Party Parliamentary Commercial Radio Group
December 2003	Culture, Media and Sport Select Committee
	House of Lords Constitution Select Committee

Key public speeches April 2003 – March 2004

April 2003	Celtic Film Festival
	Voice of the Viewer and Listener
May 2003	Demos
July 2003	Radio Festival – *Guardian* Media Lecture
	BBC English National Forum Seminar
	Digital Television Stakeholder Group
October 2003	Geneva Telecommunications Regulation Convention
	Institute of Economic Affairs
	British Screen Advisory Council
December 2003	European Competitive Telecommunications Association, Brussels
February 2004	Communications Managers' Association
March 2004	Reform Club Media Group

Richard Hooper

Briefings to Parliament April 2003 – March 2004

June 2003	All Party Parliamentary Media Group
	All Party Parliamentary Cable and Satellite Group
January 2004	All Party Parliamentary Media Group

Key public speeches April 2003 – March 2004

April 2003	Westminster Media Forum
	Royal Television Society, Glasgow – Campbell Swinton Lecture
May 2003	Voice of the Viewer and Listener
July 2003	Radio Festival
September 2003	British Screen Advisory Council
	Voice of the Viewer and Listener
October 2003	Creators' Rights Alliance
December 2003	*Financial Times* – World Telecommunications Conference
January 2004	Voice of the Viewer and Listener
	Commercial Radio Companies' Association
February 2004	Communication Managers' Association
	Internet Service Providers' Association

Stephen A. Carter

Briefings to Parliament April 2003 – March 2004

December 2003	Culture, Media and Sport Select Committee
	House of Lords Constitution Select Committee

Key public speeches April 2003 – March 2004

July 2003	ISBA (Incorporated Society of British Advertisers)
September 2003	Royal Television Society – Cambridge Convention
October 2003	Institutional Investors' Lunch – Lehman Brothers
	The Economist – INSEAD
November 2003	The Newspaper Society
	London Business School
December 2003	Adam Smith Institute
	Westminster Media Forum
January 2004	Oxford Media Convention
March 2004	Westminster Media Forum

Statement of Responsibilities

The Board's responsibilities

Under the terms of the Office of Communications Act 2002, the Board is required to prepare a Statement of Accounts for each financial year. This conforms with the Accounts Direction issued by the Secretaries of State for Trade and Industry and for Culture, Media and Sport. The Board is also responsible for sending a copy of the Statement of Accounts to the Comptroller and Auditor General.

This Statement of Accounts is prepared, in so far as applicable, in accordance with the Companies Act 1985 and the United Kingdom accounting standards. The Statement of Accounts is prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofcom as at the end of the financial year and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The Board confirms that in preparing this Statement of Accounts it has observed the relevant accounting and disclosure requirements, applied suitable accounting policies on a consistent basis, made judgements and estimates on a reasonable basis, followed applicable accounting standards and prepared the statement of accounts on a going-concern basis.

The Board is responsible for ensuring that proper records are maintained which disclose with reasonable accuracy at any time the financial position of Ofcom and enable it to ensure that the Statement of Accounts complies with the Companies Act 1985. In addition, the Board is responsible for safeguarding Ofcom's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Executive's responsibilities

The Chief Executive is appointed by the Board who delegate to him responsibility for the day-to-day management of Ofcom. The Secretaries of State for Trade and Industry and for Culture, Media and Sport have designated the Chief Executive as Ofcom's Accountable Officer. He is not formally appointed as the Accounting Officer in Government terms, however the appointment carries with it duties of responsibility in respect of regularity, propriety, value for money and good financial management and the safeguarding of public funds.

The Chief Executive has specific responsibilities for ensuring that the terms of the Financial Memorandum issued by the Secretaries of State are complied with. He must also ensure proper accounting records are maintained and must sign the accounts.

As a Member of the Board, the Chief Executive has to ensure that his accountability responsibilities do not conflict with those as a Board Member. The Chief Executive may also be called upon by the Committee of Public Accounts and other Parliamentary Committees to give evidence on the discharge of his duties.

Statement on Internal Control

Scope of responsibility

The Board has overall responsibility for Ofcom's system of internal control and for reviewing its effectiveness, whilst it is the role of the Executive Members of the Ofcom Board and senior managers to implement Ofcom's policies.

As Accountable Officer, I am responsible for maintaining a system of internal control which is sound, supports Ofcom's policies, aims and objectives as set out in the Annual Plan and which is within expenditure limits agreed by Treasury Ministers.

Such a system must also safeguard both public funds and Ofcom's assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in the Ofcom Financial Memorandum issued to me by the Secretaries of State for Trade and Industry and for Culture, Media and Sport.

I am required to advise the Board if any action would infringe upon the requirements of propriety or regularity or upon my wider responsibilities for value for money.

The purpose of the system of internal control

A system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

Ofcom's system of internal control is designed to:

- Identify and prioritise actions to address risks to the achievement of Ofcom's policies, aims and objectives.
- Evaluate the likelihood of those risks being realised and the likely impact should they be realised.
- Manage those risks efficiently, effectively and economically.

Development of a system of internal control was started during the course of 2003-04 as Ofcom prepared for the transfer of colleagues, assets, liabilities and regulatory responsibilities under the Communications Act 2003. This development has continued after the end of the 2003-04 financial year.

Capacity to handle risk

After a recent review of corporate governance arrangements, Ofcom has established an Executive Committee which met for the first time in April 2004. The Committee meets weekly and is the most senior internal management committee of Ofcom.

The Committee has a key role in managing Ofcom's risk profile and considering the main risks which might prevent achievement of its objectives. In future, nominated members of the Executive Committee will be committed to undertake regular reviews of the major areas of risk for which they are responsible.

Since assuming its duties and powers on 29 December 2003, Ofcom has developed a risk identification and assessment process. This is intended to identify the priority risks which could affect Ofcom's ability to deliver its Annual Plan objectives. This has been discussed at the Ofcom Board and action plans are being developed in 2004-05 to manage these priority risks.

In addition, individual risk registers are being completed for each functional area within the organisation. Senior management group members will be responsible for managing the risks in their areas. They must do so in a manner in keeping with Ofcom's overall tolerance of risk, and must report on their activity on a regular basis.

The Finance Group will be responsible for the overall management of the risk identification and assessment process. The risk profile will be formally updated annually in line with the business planning cycle.

Ofcom plans further development of the risk registers to include instructions and direction for risk escalation.

The risk and control framework

The development of an effective risk management strategy is being built around four key principles:

- Clear ownership of roles and responsibilities.
- Establishment of corporate systems to identify, report and evaluate risks and their potential impact.
- Ensuring colleagues have the appropriate skills to identify and assess the potential for risks to arise in the delivery of Ofcom's remit.
- The creation of a culture which supports well-managed risk-taking where to do so is likely to lead to sustainable improvements in service delivery.

However, balanced against this will be the need to maintain quality; Ofcom will therefore continue to have a relatively low tolerance of risk within its core activities.

Ofcom has developed the processes for the systematic identification and evaluation of risk. Actions identified for implementation by December 2004 include:

- The use of the Risk Register by the Executive Committee to help monitor risks at the corporate level.
- Setting up a Risk Monitoring System to oversee Ofcom's handling of risks on an ongoing basis.
- Establishing the governance arrangements for the management of the Project Office which will require project managers to identify, report on and manage project-level risks.
- Developing the requirement to consider the management of risk in Ofcom's business planning processes.
- Developing the Audit Committee's focus on risk.

Review of effectiveness

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control.

My review of the effectiveness of the system of internal control is informed by the work of the independent internal auditors KPMG and the work of colleagues within Ofcom who have responsibility for the development and maintenance of the internal control framework. My review is also informed by comments made by the external auditors, the National Audit Office, in their management letter and other reports.

Prior to 29 December 2003, I was supported by a dedicated project management team to co-ordinate Ofcom's activities and monitor its overall progress towards the assumption of duties and powers as regulator.

From January 2004 the Ofcom Finance team was required to:

- Prepare closure accounts for the five legacy organisations.
- Establish Ofcom's new financial control processes.
- Prepare Ofcom's accounts for the period April 2003 – March 2004.

The workload associated with these three areas of activity mean that some routine financial checks and reconciliations were not completed on a timely basis. As a result, additional resource was recruited and the backlog of work is being eliminated.

The Audit Committee plays an important role in managing risk within Ofcom. It is constituted in line with Treasury guidance, with Non-Executive Members of the Ofcom Board on the Committee and an independent Non-Executive in the Chair. Executive Members of the Ofcom Board and auditors are not members of the Audit Committee but are invited to the meetings. The Audit Committee reviews the effectiveness of the risk management process.

I am not a member of the Committee but attend most of its meetings, as do our internal auditors and our external auditors, the National Audit Office. The Committee's terms of reference incorporate a right of access to the Chair for both the internal and external auditors.

The internal audit function was outsourced to KPMG in November 2003 and the designated Head of Internal Audit for Ofcom is the partner leading the KPMG contract.

A number of financial control processes have been under development since Ofcom assumed its powers on 29 December 2003, including budgetary control processes and the preparation of management accounts. Many of these processes have now been documented, evaluated and communicated to colleagues. In the interim period, Executive Members of the Ofcom Board have instituted manual controls and checks and limited delegation of authority to incur expenditure.

The Ofcom Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control. It is my belief that there are satisfactory processes in place for identifying, evaluating and managing the significant risks faced by Ofcom.

Stephen A. Carter
Chief Executive
25 August 2004

Remuneration Report

The Board presents its Remuneration Report. In preparing this Report and establishing its policy the Board has given consideration to, and follows the provisions of, the Combined Code, where appropriate and applicable.

Ofcom is not required to comply with the Directors' Remuneration Report Regulations 2002 but has prepared this report to be compliant so far as is practicable and appropriate.

Constitution of the Remuneration Committee

The constitution of the Remuneration Committee is set out on page 70.

Advisers

The Remuneration Committee takes advice and/or obtains services from the following external entities, all of whom were appointed by the Committee:

- Towers Perrin, on executive remuneration.
- Eversheds LLP, on employment contracts and associated legal issues.

Towers Perrin also provides advice and services to Ofcom in respect of pensions, pension trustee and administration support and other organisational issues.

The Committee also takes advice from Ofcom's HR Director.

The Chief Executive is normally invited by the Remuneration Committee to attend meetings of the Committee.

No individual is present for any discussion about his or her own remuneration.

General policy

In setting Ofcom's remuneration policy the Remuneration Committee believes that Ofcom should, within the constraints of a public corporation, provide rewards which will attract and retain the high-calibre management necessary to enable Ofcom to fulfil its statutory remit and responsibilities. The overall policy approach is not expected to change in the coming year.

It is Ofcom policy that no Executive Member of the Ofcom Board or any other Ofcom colleague should have a fixed-term service contract or notice period exceeding one year. All current service agreements comply with this policy.

Components of remuneration

The main components of the Executive Members' remuneration are:

Salary and flexible benefits

The basic salary for each Executive Member or senior manager is determined by taking into account each colleague's responsibilities, performance and experience together with market trends. In addition, a flexible benefits allowance is made available to each Executive Member or senior manager.

Benefits in kind

Each Executive Member or senior manager receives certain standard benefits which are detailed later in this section.

Annual bonus

Each Executive Member or senior manager participates in a bonus scheme which is calculated as a percentage of salary based on the individual's performance up to a maximum of 20 per cent of salary. No element of bonus is pensionable.

Pension arrangements

Executive management

Each Executive Member or senior manager (with the exception of Tony Stoller as set out below) is provided with an allowance, determined as a percentage of base salary, which the individual can take as extra salary or invest in a pension scheme of their choice.

Ofcom Board Remuneration 2003-04

Name	Role	Salary	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Total remuneration
Millie Banerjee	Non-Executive Member (3-4)	42,207					42,207
Stephen Carter	Chief Executive (6-11)	250,000	62,500	23,566	7,203	27,500	370,769
David Currie	Chairman (1-4)	142,136	13,470				155,606
David Edmonds	Non-Executive Member (3-5)	32,664	12,137				44,801
Ian Hargreaves	Non-Executive Member (3-4)	40,392					40,392
Richard Hooper	Deputy Chairman (3-4)	76,688	1,360				78,048
Kip Meek	Senior Partner, Competition and Content (6-11)	208,094	41,872	21,132	5,117	23,842	300,057
Sara Nathan	Non-Executive Member (3-4)	42,207			659		42,866
Ed Richards	Senior Partner, Competition and Strategy (6-11)	181,750	26,963	19,089	4,136	22,906	254,844
Total		**1,016,138**	**158,302**	**63,787**	**17,115**	**74,248**	**1,329,590**

Tony Stoller is eligible to participate in the Ofcom Defined Benefit Pension Plan arising from his service as Chief Executive of the Radio Authority. This provides salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of final salary per year of service, subject to the Inland Revenue Earnings Cap where appropriate. Tony Stoller receives additional benefits through the Plan in recognition of his earnings in excess of the cap. No benefit is provided through unapproved arrangements.

Non-Executive Members

The pension costs of David Currie and the cost of the pension received by David Edmonds are met by Ofcom as set out in the notes below. As Chair of the Radio Authority Richard Hooper was provided with a pension by analogy to the ITC Staff Pension Plan (now the Ofcom (former ITC) Pension Plan). This provided salary-related benefits on a deferred benefit basis with an accrual rate of 1/60th of final salary for each year of service subject to the Inland Revenue earnings cap where appropriate. Ofcom has continued this arrangement. The other Non-Executive Members do not receive a pension benefit from Ofcom.

Details of remuneration for the Board, the Content Board and the Executive Committee are set out above and on pages 80 and 81. The numbered points against the names of individuals refer to the numbered points set out on pages 81 and 82.

Ofcom Content Board Remuneration 2003-04

Name	Role	Salary	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Total remuneration
Sue Balsom	Content Board Member (3-4)	11,000			0		11,000
Floella Benjamin	Content Board Member (3-4)	11,000			349		11,349
Kevin Carey	Content Board Member (3-4)	11,000			304		11,304
Jonathan Edwards	Content Board Member (3-4)	11,000			200		11,200
Pam Giddy	Content Board Member (3-4)	11,000			199		11,199
Rosemary Kelly	Content Board Member (3-4)	11,000			249		11,249
Matthew MacIver	Content Board Member (3-4)	11,000			199		11,199
Adam Singer	Content Board Member (3-4)	11,000			0		11,000
Kath Worrall	Content Board Member (3-4)	11,000			0		11,000
Tim Suter	Partner, Contents and Standards (6-11)	115,401	17,018	16,806	3,061	7,890	160,176
Total		**214,401**	**17,018**	**16,806**	**4,561**	**7,890**	**260,676**

Guidance to the remuneration schedules

These schedules refer to remuneration during the financial year. A number of the individuals whose details are contained in the schedules joined Ofcom during the financial year. The schedule therefore reflects remuneration for that part of the year during which they were either providing services to, or employed by, Ofcom.

The numbered points against the names of individuals refer to the numbered points set on pages 81 and 82.

Ofcom Executive Committee Remuneration 2003-04

Name	Role	Salary	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Total remuneration
Robin Foster	Partner, Strategy Team (6-11)	45,057	8,849	5,245	1,251	10,700	71,102
Graham Howell	Secretary to the Corporation (6-11)	56,129	7,506	7,016	1,727	0	72,378
Peter Ingram	Chief Technology Officer (6-11)	33,750	6,750	6,250	838	0	47,588
Sandra Jenner	Director, Human Resources (6-11)	171,083	4,040	24,811	1,719	18,301	219,954
Tony Stoller	External Relations Director (6-11)	38,995	9,498	4,443	1,127	15,869	69,932
Kate Stross	Commercial Director (6-11)	147,500	29,670	21,291	3,500	11,055	213,016
Total		**492,514**	**66,313**	**69,056**	**10,162**	**55,925**	**693,970**

Notes to the Remuneration Tables:

1. The remuneration of the Chairman is set by the City University by whom the Chairman is employed directly, in agreement with the DTI and DCMS. Ofcom reimburses the City University for two-thirds of the Chairman's remuneration through a secondment agreement. The figure for the Chairman's remuneration is the current reimbursed amount by Ofcom to the City University for his services. The City University review the remuneration paid to the Chairman in August each year. In addition, Ofcom reimburses the City University for four-fifths of the Employer's National Insurance costs incurred for the Chairman for each year of the secondment.

2. The Chairman is a member of the City University Defined Benefit Pension Scheme ('the City Scheme'); Ofcom contributes (by way of reimbursement to City University) on an annual basis four-fifths of the contributions made by City University as principal employer of the Chairman to the City Scheme.

3. The Non-Executive Members of the Ofcom Board and the Content Board Members receive no additional remuneration from Ofcom other than the entitlement to the provision of certain standard benefits which are a digital package for domestic and business use and the provision of IT equipment for home working. Not all Non-Executive Members of the Ofcom Board or Content Board Members took up the entitlement during the period under review.

4. The fees for all the Non-Executive Members (with the exception of the Chairman) are fixed in agreement with the DTI and DCMS for the duration of their appointment. The fees for the Content Board are fixed by the Ofcom Board. The fees shown represent a full year for the Non-Executive Members of the Ofcom Board but a part year for the Content Board Members.

With the exception of the Chairman and the Deputy Chairman, backdated increases in fees to the date of appointment have been agreed with the DTI and DCMS, so that the basic fee at appointment for all of the Non-Executive Members (with the exception of the Chairman and the Deputy Chairman) was £37,500 per annum each. This reflects the removal of the provision of superannuation which has not been provided other than to the Deputy Chairman. These fee levels (together with the fees for the Deputy Chairman) are linked to the recommendations of the Senior Salaries Review Board for senior civil service pay. As a consequence of such linkage, the basic fees for all the Non-Executive Members (with the exception of the Chairman) were given a backdated increase of 2.25 per cent from 1 April 2003 and 2.00 per cent from 1 April 2004.

5. David Edmonds was employed by Oftel until 28 December 2003; Ofcom reimbursed part of his costs to Oftel. From 29 December 2003 Mr Edmonds is receiving a pension arising from his service as Director-General of Oftel. The cost of Oftel's contributions into the Principal Civil Service Pension Scheme for the period to 28 December 2003 was £9,600, which sum was reimbursed by Ofcom to Oftel; since 29 December 2003, Ofcom has reimbursed the Principal Civil Service Pension Scheme for the actual pension payable to Mr Edmonds.

6. Annual remuneration for the Ofcom executives (Executive Members of the Ofcom Board, Executive Members of the Content Board and senior managers on the Executive Committee) includes base salary together with a cash allowance for flexible benefits and a percentage pension provision (with the exception of Tony Stoller, as explained above).

7. Base salary for all senior executives is reviewed annually on 1 April. The salary of the Chief Executive was increased by 7 per cent and the salaries for Ed Richards and Kip Meek by 4 per cent and 3 per cent respectively from 1 April 2004.

8. Each Ofcom Executive Member of the Ofcom Board or senior manager receives certain standard benefits which include base-level life assurance, private medical insurance and the provision of a digital package, including a mobile telephone, for domestic and business use.

9. Ed Richards was paid a one-off £3,039 contribution towards his relocation costs from Wales when his employment commenced.

10. All Ofcom colleagues participate in a bonus scheme, payment of which is based on individual performance. All payments are approved by the Ofcom Remuneration Committee and are calculated as a percentage of base salary ranging from 0-20 per cent.

11. The bonuses payable to senior managers on the Executive Committee reflect the fact that only one member, Sandra Jenner, was employed by Ofcom for the whole of the financial year. Tony Stoller and Robin Foster were on secondment to Ofcom from their previous employers and received a bonus for the period of that secondment. The remuneration of the other members of the Executive Committee reflects the period of their employment from their start date until the end of the financial year. Graham Howell and Peter Ingram were not considered for bonuses in the year under review due to their employment start date. The Chief Executive's bonus potential for 2003-04 was capped at 12 per cent of base salary. This was increased to 20 per cent for 2004-05 and beyond, in line with the other Executive Members and senior managers.

Executive disclosure for Defined Benefit pensions

Tony Stoller was appointed during the year. The increase in transfer values and in accrued pension in the table below is in respect of the period from his appointment on 29 December 2003.

The transfer value of accrued pension benefits represents an estimate of the cost to the pension scheme of providing the pension benefit accrued to date (calculated in accordance with Actuarial Guidance Note GN11). The value is affected by a number of factors, which include age of individual, pensionable salary, years of pensionable service and investment market conditions at the date of calculation.

Service agreements

No Executive Member of the Ofcom Board or other Ofcom colleague has a service agreement containing a notice period exceeding one year. The Chief Executive has a notice period of 12 months; the other Executive Members of the Ofcom Board and members of senior management have notice periods not exceeding nine months. The Remuneration Committee has considered the notice period and termination arrangements in the light of the Combined Code and believes them to be appropriate.

The Non-Executive Members are all on fixed-term appointments of between three and five years for a set time commitment to Ofcom of up to two days per week. Each Non-Executive Member has to give six months' notice of resignation if he/she wishes to leave before the expiry of the relevant term of office.

Compensation for early termination

The arrangements for early termination of a service contract for an Executive Member of the Ofcom Board or senior manager are decided by the Remuneration Committee and will be made in accordance with the service contract of the relevant Executive Director or senior manager. Each service contract provides for a payment in lieu of notice on early termination at Ofcom's discretion.

If payments for termination are dealt with in accordance with the above provisions, the restrictive covenants contained in each Executive Member's or senior manager's contract in favour of Ofcom will still apply.

Non-Executive Members have no entitlement to compensation in the event of early termination.

All Non-Executive Members have restrictions against working for a regulated business for up to six months prior to the termination or expiry of the appointment (a period of exclusion or garden leave) and six months after termination (a protective covenant). These restrictions reflect those which also apply to the Executive Members of the Ofcom Board and are designed to protect the independence of Ofcom and the professional integrity of each Non-Executive Member.

Outside directorships

No Executive Member of the Ofcom Board may accept a non-executive appointment without the prior approval of the Board to ensure that these do not give rise to conflicts of interest.

No Executive Member has a non-executive appointment.

All appointments accepted by the Non-Executive Members of the Ofcom Board must be notified to the Board to ensure that no conflict of interest arises; if such conflict is deemed to arise then the Non-Executive Member will be required to resign from the Member position in question.

On behalf of Ofcom,

Millie Banerjee
Chairman of the Remuneration Committee
25 August 2004

Disclosures for Defined Benefit pensions

	Accrued pension at 31 March 2004	Increase in accrued pension over year	Transfer value of accrued pension at 31 March 2004	Transfer value of accrued pension at 31 March 2003	Increase in transfer value less Directors' and Senior Managers' contributions
Richard Hooper	£5,100 pa	£1,360 pa	£75,480	£51,590	£19,660
Tony Stoller	£630 pa	£630 pa	£9,840	–	£7,510

Accounts
for the Period April 2003 – March 2004

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements under the Office of Communications Act 2002. These financial statements comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and related Notes numbered 1 to 30, and the tables of emoluments and entitlements and related Notes in the Remuneration Report. The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and the accounting policies set out in Note 1 to the financial statements.

Respective responsibilities of Board Members, the Chief Executive and Auditor

As described on page 74, the Board Members and Chief Executive are responsible for the preparation of the financial statements in accordance with the Office of Communications Act 2002 and directions made thereunder by the Secretaries of State for Trade and Industry, and for Culture, Media and Sport, and for ensuring the regularity of financial transactions. The Board Members and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Office of Communications Act 2002 and directions made by the Secretaries of State thereunder, and whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if Ofcom has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read all the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 75 to 77 reflects Ofcom's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accountable Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of Ofcom's corporate governance procedures or its risk and control procedures.

Basis of Opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board Members and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to Ofcom's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of Ofcom at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the period then ended, and have been properly prepared in accordance with the Office of Communications Act 2002 and directions made thereunder by the Secretaries of State.
- In all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
6 September 2004

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Income and Expenditure Account
for the year ended 31 March 2004

	Notes	Pre-Vesting to 28 Dec 2003 £'000	Post-Vesting from 29 Dec 2003 £'000	Total Year ended 31 March 2004 £'000	Total 9 months ended 31 March 2003 £'000
Income	2,3	–	**32,865**	**32,865**	–
Expenditure					
Staff costs	4	(2,802)	**(10,606)**	**(13,408)**	(383)
Other operating costs	6	(19,481)	**(24,057)**	**(43,538)**	(7,777)
Operating deficit		(22,283)	**(1,798)**	**(24,081)**	(8,160)
Exceptional charge					
Future costs of vacant properties	7	–	**(22,244)**	**(22,244)**	–
Interest receivable	9	44	**87**	**131**	–
Interest payable	10	(513)	**(506)**	**(1,019)**	–
Notional cost of capital charge	23	42	**(217)**	**(175)**	183
Deficit on ordinary activities before taxation		(22,710)	**(24,678)**	**(47,388)**	(7,977)
Taxation		–	**–**	**–**	–
Deficit on ordinary activities after taxation		(22,710)	**(24,678)**	**(47,388)**	(7,977)
Reversal of notional cost of capital charge	23	(42)	**217**	**175**	(183)
Deficit for the financial year		(22,752)	**(24,461)**	**(47,213)**	(8,160)

On 29 December 2003, the functions of five legacy organisations and their assets and liabilities were transferred to Ofcom (see note 1a).

All activities are continuing.

The accounting policies and notes on pages 92 to 111 form part of these financial statements.

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2004

	Notes	Year ended 31 March 2004 £'000	9 months ended 31 March 2003 £'000
Deficit for year		**(47,213)**	(8,160)
Transfer of net assets from legacy organisations at fair value	8	**11,091**	–
Ofcom Defined Benefit Pension Plan:			
Actual return less expected return on plan assets	26	**(1)**	–
Experience losses on pension scheme liabilities	26	**–**	–
Changes in assumptions underlying the present value of pension scheme liabilities	26	**(10)**	–
Total recognised deficit for year		**(36,133)**	(8,160)

The accounting policies and notes on pages 92 to 111 form part of these financial statements.

Balance Sheet
as at 31 March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	11	**31,037**	434
Current assets			
Debtors	12	**11,716**	314
Investment	13	**–**	–
Cash at bank and in hand		**31,545**	–
		43,261	314
Creditors – amounts falling due within one year	15	**(56,024)**	(3,498)
Net current liabilities		**(12,763)**	(3,184)
Total assets less current liabilities		**18,274**	(2,750)
Creditors – amounts falling due after more than one year	16	**(34,060)**	(5,410)
Provisions for liabilities and charges	20	**(28,527)**	–
		(44,313)	(8,160)
Pension asset	14	**20**	–
Net Liabilities	21	**(44,293)**	(8,160)
Reserves			
Income and expenditure account	21	**(44,425)**	(8,160)
Revaluation reserve	21	**132**	–
		(44,293)	(8,160)

The accounting policies and notes on pages 92 to 111 form part of these financial statements.
These financial statements were approved by the Board on 25 August 2004.

David Currie
Chairman

Stephen A. Carter
Chief Executive

Cash Flow Statement
for the year ended 31 March 2004

	Notes	Year ended 31 March 2004 £'000	9 months ended 31 March 2003 £'000
Net cash inflow/(outflow) from operating activities	22	**1,827**	(3,870)
Returns on investment and servicing of finance			
Interest received	9	**131**	–
Interest paid	10	**(1,019)**	–
		(888)	–
Capital expenditure & financial investment			
Payments to acquire fixed assets	11	**(15,975)**	(434)
Cash balances transferred from legacy organisations	8	**4,893**	–
Cash outflow before financing		**(10,143)**	(4,304)
Financing			
Loans received	17	**48,000**	4,304
Loans repaid	17	**(6,312)**	–
Net cash inflow from financing		**41,688**	4,304
Increase in net cash in the year		**31,545**	–
Reconciliation of net cash flow to movements in net debt			
Increase in cash in the year		**31,545**	–
Increase in debt in the year		**(41,688)**	(4,304)
Net debt at 1 April		**(4,304)**	–
Net debt at 31 March		**(14,447)**	(4,304)

Notes to the Accounts
for the year ended 31 March 2004

1. Accounting Policies

a) Basis of accounting

These financial statements have been prepared on a going-concern basis in accordance with the Accounts Direction from the Secretaries of State for Trade and Industry, and for Culture, Media and Sport issued on 10 November 2003.

The financial statements have been prepared under the historical cost convention, modified by the revaluation of fixed assets and comply with the requirements of the Companies Act 1985, except where these are overridden by the Office of Communications Act 2002, and with applicable accounting standards.

This set of accounts reflects different periods in Ofcom's development. Under the Communications Act 2003, Ofcom became fully operational at its vesting date of 29 December 2003. At this time, in line with the requirements of the Act, Ofcom took on the functions together with the assets and liabilities of five legacy organisations – the Radiocommunications Agency, the Office of Telecommunications, the Independent Television Commission, the Radio Authority and the Broadcasting Standards Commission. In addition, Ofcom took on a much broader set of duties and accordingly the Board does not consider it appropriate for Ofcom to apply merger accounting principles to these transfers.

In the period prior to 29 December 2003, Ofcom was preparing to take on functions once Royal Assent to the Communications Bill was received in July 2003. During this period, Ofcom generated no income, and was funded by loans from the DTI, as set out at Note 18.

The transfers of assets and liabilities from the five legacy organisations is reflected in the accounts at fair value to Ofcom, as set out in Note 8 to these accounts; certain adjustments were made to the carrying value of transferred assets and liabilities to bring accounting policies into line with those adopted by Ofcom. Following transfer, in the post-vesting period, Ofcom made provision for vacant properties and, as explained in Note 7, the charge arising has been treated as an exceptional charge to Ofcom's Income and Expenditure account.

The prior year comparatives reflect the nine-month period from Ofcom's formal commencement on 1 July 2002 until 31 March 2003. They reflect the operations of the body facilitating the implementation, and for securing the modification, of the proposals about the regulation of communications contained in the Communications Bill.

b) Going concern

The Board, having carefully considered Ofcom's 2004-05 budget and funding needs for 12 months from the signature date of these accounts, are confident that sufficient funding will be available to meet Ofcom's liabilities as they fall due.

Accordingly, it has been considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

c) Income recognition

Spectrum management income

This income comprises grant-in-aid from the DTI to meet the costs of spectrum management. This income is matched against cash costs incurred within the agreed allocation. Grant-in-aid receipts in excess of spectrum management costs are included in creditors as payments on account at the balance sheet date.

Spectrum efficiency scheme income

This income comprises grant-in-aid from the DTI to meet the costs of spectrum efficiency projects and refarming works. This income is matched against cash costs incurred within the agreed allocation. Grant-in-aid receipts in excess of spectrum efficiency scheme costs are included in creditors as payments on account at the balance sheet date.

Networks and services administrative fees

Income which comprises administrative fees invoiced by Ofcom, is accounted for on an accruals basis. As explained in Note 2, Ofcom raised no material charges of this type in 2003-04.

Broadcasting income

Income from broadcasting licence fees represents the amount invoiced to licensees. Licence fees in excess of £25,000 a year are payable in monthly instalments. Licence fees of less than £25,000 are payable as an annual sum on the grant and on the anniversary of the licence. Income from broadcasting licence fees is recognised on an accruals basis.

Grant-in-aid and other income

Grant-in-aid is accounted for in the period in which it is received. Amounts of grant-in-aid paid over in advance are treated as payments on account at the balance sheet date. Other income is accounted for on an accruals basis and is matched with the expenditure towards which it contributes.

d) Receipts collected by Ofcom and remitted to the Consolidated Fund

Broadcasting Act Additional Payments and licence fees arising from the issue or renewal of licences under the Wireless Telegraphy Acts are remitted to the Consolidated Fund in accordance with Section 400 of the Communications Act 2003. Accordingly, no entries are made in Ofcom's accounts in respect of Additional Payments and WT Act licence fees except where those payments and fees have been collected and are in an Ofcom bank account at the balance sheet date. These amounts are shown as due to the Consolidated Fund within creditors.

Ofcom prepares a separate set of accounts to 31 March each year for the purposes of Section 400 of the Communications Act 2003. These accounts are laid before Parliament.

e) Leases

Rentals payable under operating leases are charged to the Income and Expenditure account. For properties with initial rent-free periods, the total rentals payable in the period until the first rent review are charged to the Income and Expenditure account on a straight-line basis over that period.

f) Onerous property leases

Where properties become surplus to requirements, professional advice is taken on marketing these properties and provision is made for the estimated future liabilities on these leases at current prices, and discounted using the Treasury discount rate of 3.5%. Future rental income is only included in this calculation to the extent that it is reasonably certain.

g) Redundancy and future pensions costs

The provision for redundancy costs reflects the estimated liability for redundancy and severance costs for employees of the former legacy organisations unpaid at the balance sheet date. It includes liabilities that may arise at the end of trial employment periods or at the conclusion of notice periods.

The Radiocommunications Agency and Office of Telecommunications operated an Early Retirement Scheme which gave retirement benefits to certain qualifying employees. These benefits conform to the rules of the Principal Civil Service Pension Scheme (PCSPS). The liability of the Agency and Oftel to bear the costs of these benefits transferred to Ofcom on 29 December 2003. The liability remains until the normal retirement age of the employees retired under the Early Retirement Scheme. Provision is made for these additional costs, based on the undiscounted value of the annual amounts payable at the balance sheet date because the time value of money is not considered to have a material impact. The actual amounts payable increase annually in accordance with PCSPS rules.

h) Settlement of claims

Provision is made for estimated third-party legal costs and damages in respect of challenges to regulatory decisions of Ofcom and legacy organisations where it is judged probable that these will be payable.

i) Fixed assets and depreciation

Fixed assets are valued at cost or estimated replacement cost. Assets acquired in the year are not revalued.

Where assets are revalued, Ofcom uses the Office of National Statistics indices.

Assets transferred to Ofcom from legacy organisations at 29 December 2003 have been restated at cost less depreciation to reflect the estimated useful life of the asset under Ofcom's accounting policies.

Assets, with the exception of freehold land, are depreciated once the asset is brought into use. Depreciation is provided on a straight-line basis, from the month following that in which an asset is brought into service, over the estimated useful life of the asset, as follows:

Buildings	50 years
Fixtures & Fittings – Leasehold Properties	Period of the lease
Fixtures & Fittings – Furniture	7 years
Office and Field Equipment	4 years
Information Systems	3 years
Motor Vehicles	5 years

During the year Ofcom reviewed the threshold at which it would capitalise expenditure and adopted a threshold where a fixed asset would be recognised, where either:

- The individual cost of an asset exceeds £2,500; or
- The individual cost of the asset exceeds £200 and a minimum of ten like assets with an aggregate cost of at least £5,000 are purchased in any one quarter.

Notes to the Accounts
for the year ended 31 March 2004

j) Research and development

Research and development expenditure is written off as incurred to the Income and Expenditure account.

k) Investments

There is one investment which is held at the lower of cost and net realisable value. Income arising from investments is recognised when receivable.

l) Pension costs

Ofcom participates in two defined benefit pension schemes which relate to staff transferring to Ofcom from legacy organisations but are closed to new members.

The Ofcom Defined Benefit Pension Plan provides benefits that are broadly equivalent to the PCSPS. Ofcom is the only participating employer in the scheme. FRS 17 (Accounting for Pension Scheme Liabilities) is followed and the net assets of the scheme are included in the balance sheet. Movement in the net assets are shown on the Statement of Total Recognised Gains and Losses.

The second scheme is the Ofcom (Former ITC) Staff Pension Plan where Ofcom is one of three participating employers. The assets of this scheme are held in a separately administered trust and are not identified by employer. Under FRS 17 this is accounted for as a multi-employer scheme and the payments charged in these accounts represent the current service contributions of Ofcom.

Ofcom also has liabilities in respect of pension payments to three former chairmen of the Independent Television Commission, two former chairmen of the Radio Authority and two former Director Generals of Telecommunications. These are unfunded schemes and are accounted for under FRS 17 with a provision included in Ofcom's balance sheet for the actuarial valuation of the liabilities.

New staff may join a stakeholder pension scheme, which is a defined contribution scheme. Pension contributions payable to defined contribution schemes are expensed as incurred.

m) Foreign exchange

Transactions designated in foreign currencies are translated into sterling at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities designated in foreign currencies are translated at the rates prevailing at the balance sheet date with the resulting profit or loss included in the Income and Expenditure account for the year.

n) Financial instruments and credit risk

Ofcom had initial loan funding of £52.3m from the Secretary of State for Trade and Industry to fund its establishment and running costs prior to the vesting of powers to set licence and administrative fees under the Communications Act 2003. The interest rates for the loans made by the Secretary of State for Trade and Industry are fixed for the period of the loan with repayments due at six-monthly intervals. Ofcom has limited powers to borrow money to fund short-term fluctuations in cash flow.

Interest is recognised over the period of the loan, calculated in accordance with the loan terms.

Surplus funds generated by Ofcom's operations are held as bank balances or short-term deposits.

o) Tax

HM Customs and Excise has ruled that Ofcom's regulatory functions do not constitute a trading business. Consequently, Ofcom is unable to recover VAT on expenditure which it incurs as part of its normal operating activities.

Corporation tax is assessable on interest received, and in respect of surplus property and commercial activities. No provision for this tax has been made as there are net losses allowable for Corporation tax.

p) Capital charge

Under the terms of Ofcom's Financial Memorandum issued by the Secretary of State for Trade and Industry and the Secretary of State for Culture, Media and Sport, a charge, reflecting the cost of capital utilised by Ofcom (in accordance with standard government accounting practice), is made to the deficit before taxation. The charge is calculated at the government's standard rate of 3.5% (2003–6%) on the carrying amount of all assets less liabilities. This is reversed out to determine the retained deficit on ordinary activities after taxation.

q) Segmental analysis

For transparency and to meet with the requirements of the Communications Act 2003 to provide information on cost and fees, Note 2 to these accounts presents the Income and Expenditure account by sector. As a public corporation, Ofcom is not required to present information in accordance with SSAP25, Segmental Reporting.

2. Sectoral analysis

Ofcom first generated income from 29 December 2003. The analysis below refers to income by sector from 29 December 2003 to 31 March 2004 together with attributable costs for that period. No comparative is provided for the nine months ended 31 March 2003, because no income was generated in that period.

	Spectrum management	Spectrum efficiency scheme	Networks & services	Broadcast	Other activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue						
Licence & admin fees	–	–	2	5,691	–	5,693
Application fees	–	–	20	50	–	70
Grant-in-aid	24,416	960	–	–	170	25,546
Other income	–	–	–	–	1,556	1,556
Total income	24,416	960	22	5,741	1,726	32,865
Interest receivable	–	–	–	–	87	87
Total revenue	24,416	960	22	5,741	1,813	32,952
Operating costs	19,714	829	4,720	6,429	2,971	34,663
Interest payable	506	–	–	–	–	506
Total costs	20,220	829	4,720	6,429	2,971	35,169
Surplus/(deficit) on area of activity	4,196	131	(4,698)	(688)	(1,158)	(2,217)
Net adjustments	2,116	93	527	718	331	3,785
Revised surplus/(deficit) on cash cost basis	6,312	224	(4,171)	30	(827)	1,568

Under the Communications Act 2003, the regulatory responsibilities of five legacy organisations transferred to Ofcom. In addition, the Act gave Ofcom additional duties, some of which are funded directly by government grants.

The initial charging periods were:

a) Broadcast activities – 29 December 2003 to 31 March 2004; and

b) Networks and services – 25 July 2003 to 31 March 2004. As explained below, Ofcom recorded no material income from these fees in 2003-04.

Ofcom has set licence and administrative fees for 2004-05 based on its revenue and capital cash costs. Any 2003-04 surplus cash will be passed on, and any cash deficit recovered, within the 2005-06 tariffs which will be advised late in the 2004-05 financial year. Net adjustments in the table above reflect the elimination of non-cash charges (depreciation, charges to the Income and Expenditure account for rent-free periods and increases in non-exceptional provisions) net of capital additions.

The £6.3m difference between spectrum management income and costs represents grant in aid utilised to repay part of the DTI loan in March 2004.

Other activities include grant-in-aid funded competition enquiries and commercial activities including spectrum interference work. In accordance with Ofcom's accounting policies, as set out at Note 1c) to these accounts, grant-in-aid is accounted for in the period in which it is received. Included within other activities is a deficit of £0.9m relating to costs incurred on ex-post competition work for which grant-in-aid will be received in 2004-05; an equivalent surplus will be recognised in Ofcom's 2004-05 accounts.

Notes to the Accounts
for the year ended 31 March 2004

Reconciliation to I & E account	2004 £'000
Surplus per sectoral analysis	1,568
Net adjustments	(3,785)
	(2,217)
Vacant property charge	(22,244)
Cost of capital charge	(217)
Post-vesting deficit before taxation	**(24,678)**

Networks and services

Under Section 38 of the Communications Act 2003, Ofcom is required to report on the total amount paid by Networks and services providers as administrative fees during the charging year, and the total costs incurred in relation to this activity.

In accordance with the Act, the Director General of Telecommunications, rather than Ofcom, determined that the first charging period would cover the period from 25 July 2003 to 31 March 2004.

The table below sets out the consolidated position for the whole of that charging period:

	25 July 2003 to 28 Dec 2003 £'000	29 Dec 2003 to 31 March 2004 £'000	Total £'000
Total revenue	12,588	22	12,610
Net operating costs	(8,718)	(4,720)	(13,438)
Net administration income/(costs)	3,870	(4,698)	(828)
Net adjustments	440	527	967
Net administration income/(costs)	**4,310**	**(4,171)**	**139**

Most administrative fees for this charging period were accounted for in the accounts of the Office of Telecommunications (Oftel) in the period to 28 December 2003. Accordingly, Ofcom has recorded a deficit in networks and services for the period from 29 December 2003 to 31 March 2004.

Across the charging period and using a time-apportioned estimate of costs for Oftel, a surplus of £0.1m was recorded. Additionally, in 2004-05 Ofcom will receive £1.2m revenue, and £0.5m capital funding from the DTI, being prior year over recoveries by Oftel; these amounts will be recognised in the 2004-05 accounts. Ofcom also received the benefit of net assets transferred from Oftel; after taking into account Oftel provisions funded by the DTI loan, these assets amounted to £3.6m. As noted above, any surplus cash will be applied to reduce 2005-06 tariffs.

3. Income

	2004 £'000	2003 £'000
Grant-in-aid – DTI – Spectrum management	24,416	–
Grant-in-aid – DTI – Spectrum efficiency scheme	960	–
Grant-in-aid – DCMS	170	–
Total government grant-in-aid	25,546	–
Broadcasting Act licence fees	5,691	–
Broadcasting Act application fees	50	–
Networks & services administrative fees	2	–
Networks & services application fees	20	–
Other income	1,556	–
Total	**32,865**	**–**

4. Staff costs

	2004 £'000	2003 £'000
Staff costs, including fees paid to Board Members, were:		
Salaries & benefits	11,184	316
National insurance costs	1,168	32
Pension costs	1,056	35
	13,408	**383**

More detailed information in respect of the remuneration and pension entitlements of the directors and senior executives is shown in the Remuneration Report on pages 78 to 83.

Notes to the Accounts
for the year ended 31 March 2004

5. Employee numbers

	2004	2003
The average number of full time equivalent employees was	**192**	1

As at 31 March 2004, Ofcom had 727 employees.

Non-Executive Members of the Ofcom Board, Content Board and Advisory Committees are excluded from employee numbers.

During 2003-04 Ofcom had an average of 21 employees in the nine months to 28 December 2003 and 704 in the three months to 31 March 2004.

Colleagues seconded to Ofcom prior to 29 December 2003 by the legacy organisations are excluded from the above figures. Additionally, other secondees (primarily from the DTI) post 28 December 2003 are excluded from this analysis.

6. Other operating costs

	2004 £'000	2003 £'000
Auditors remuneration – statutory audit fees	**148**	30
Professional fees	**9,548**	4,520
Outsourced services	**3,973**	–
Audience & consumer research	**1,005**	–
Technological research and frequency planning	**3,423**	–
Other staff costs:		
– seconded staff	**3,226**	288
– temporary staff and recruitment	**3,097**	275
Travel and subsistence	**563**	30
Administration and office expenses	**9,585**	290
Premises costs	**7,333**	2,344
Depreciation	**1,637**	–
	43,538	7,777
The above costs include:		
Operating leases – land & buildings	**5,392**	1,967
Operating leases – computers	**246**	–

7. Exceptional charge

	2004 £'000	2003 £'000
Future costs of vacant properties	**22,244**	–

The charge is in respect of 14 leasehold premises not used by Ofcom at 31 March 2004. The provision is the net present value (NPV) of the expected cash outflows arising as a result of lease commitments transferred to Ofcom, net of the discounted value of future income streams secured from committed and reasonably certain future sublets. Future costs have been discounted by 3.5% per annum, the same discount rate as that used to calculate the cost of capital charge for Ofcom.

The amount of the provision has been calculated in accordance with the requirements of FRS12. It is an exceptional charge because it arises as a result of the organisation and location changes that occurred with the closure of the five legacy organisations. There is no impact on cash flows in 2003-04 as a result of this exceptional charge, because it relates to cash outflows in subsequent years.

Notes to the Accounts
for the year ended 31 March 2004

8. Transfer of assets and liabilities from legacy organisations

	RA	Oftel	ITC	Radio Authority	BSC	Total	Fair value adjustments	Transferred balances
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
NBV fixed assets	27,833	117	670	73	–	28,693	(12,428)	**16,265**
Debtors	26,866	4,530	1,558	901	179	34,034	(21,674)	**12,360**
Cash	28	5,273	(1,395)	823	164	4,893	–	**4,893**
Creditors	(27,886)	(9,918)	(3,923)	(1,926)	(431)	(44,084)	21,657	**(22,427)**
Reserves	26,841	2	(3,090)	(129)	(88)	23,536	(12,445)	11,091

RA – Radiocommunications Agency
Oftel – Office of Telecommunications
ITC – Independent Television Commission
BSC – Broadcasting Standards Commission

Under the Communications Act 2003, the Secretary of State approved transfer schemes to transfer the assets and liabilities of the five legacy organisations to Ofcom on 29 December 2003.

In total, net assets of £23.5m, before fair value adjustment, were transferred to Ofcom with a corresponding adjustment to reserves. No consideration was paid in respect of these transfers.

Included in the transfers are liabilities of £10.7m of redundancy and retirement benefit provisions for which Ofcom has obtained start-up funding.

The most significant fair value adjustments were:

- A £12.4m reduction to the carrying value of fixed assets arising from the application of Ofcom's depreciation policy to the fixed assets transferred in from the five legacy organisations. In each case the net book value of the asset was reviewed, and the Ofcom capitalisation and depreciation policy was applied; and
- The elimination of £21.5m of WT Act licence fee debtors and creditors in accordance with Ofcom's accounting policies as set out in Note 1(d).

9. Interest receivable

	2004	2003
	£'000	£'000
On short-term deposits	**131**	–

£44k of this related to the pre-vesting period and has been used to offset the net costs funded by the loans from the DTI in the period.

10. Interest payable

	2004	2003
	£'000	£'000
On DTI Loan	**1,019**	–

11. Fixed assets

	Land & buildings	Fixures & fittings	Office & field equipment	Information systems	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
COST/VALUATION						
At 1 April 2003	–	434	–	–	–	434
Additions during year	–	12,386	1,267	2,301	21	15,975
Assets transferred in from legacy organisations	2,708	–	10,730	1,478	1,349	16,265
Cost/valuation at 31 March 2004	**2,708**	**12,820**	**11,997**	**3,779**	**1,370**	**32,674**
DEPRECIATION						
At 1 April 2003	–	–	–	–	–	–
Charge for the year	36	299	725	446	131	1,637
Accumulated depreciation at 31 March 2004	36	299	725	446	131	1,637
NBV 31 March 2004	**2,672**	**12,521**	**11,272**	**3,333**	**1,239**	**31,037**
NBV 31 March 2003	–	434	–	–	–	434

Land and buildings includes freehold land held at a valuation of £0.3m.

Office & field equipment includes £1.0m for remote monitoring systems in the course of construction and accordingly not depreciated at the balance sheet date.

The transfers from legacy organisations were made at a net book value of £16.3m after fair value adjustments made by Ofcom (see Note 8).

No assets were disposed of in the year.

Notes to the Accounts
for the year ended 31 March 2004

12. Debtors

	2004 £'000	2003 £'000
Trade debtors	**2,692**	–
Other debtors	**219**	5
Prepayments	**2,887**	89
Staff loans & advances	**229**	220
Accrued income	**3,951**	–
VAT	**1,738**	–
	11,716	314

13. Investment

The Radiocommunications Agency entered into a joint venture agreement with CMG UK Ltd (now LogicaCMG plc) on 8 June 1998. The agreement had an initial term of seven years, with the objectives of supplying IT services to the Agency, and developing an international spectrum management consultancy, through a joint venture company. Radio Spectrum International Consulting Limited (RSI) was incorporated with an issued share capital of 1000 ordinary shares of £1 each, of which 30% was issued to the Agency, who appointed two directors, and 70% to CMG, who appointed four directors.

The RA's £300 investment was transferred to Ofcom on 29 December 2003. Under a separate contract agreed between Ofcom and LogicaCMG plc it has been agreed to transfer Ofcom's shareholding in RSI as part of the consideration for the renegotiation of the IS services agreement between Ofcom and LogicaCMG. Accordingly, the investment is classified within Current Assets and is not considered to represent a joint venture for accounting purposes.

14. Pension asset

	2004 £'000	2003 £'000
Ofcom defined benefit pension plan surplus	**20**	–

15. Creditors – amounts falling due within one year

	2004 £'000	2003 £'000
Amounts due to Consolidated Fund	**20,865**	–
Trade creditors	**4,850**	1,166
Corporation tax payable for legacy organisations	**84**	–
Other taxation and social security	**1,157**	38
Other creditors	**2,759**	–
DTI grant-in-aid	**3,940**	–
Loan funding from DTI	**17,810**	861
Accruals and deferred income	**4,559**	1,433
	56,024	3,498

Amounts due to Consolidated Fund comprise £3.3m of Broadcasting Act Additional Payments, £16.9m of WT Act licence fees received at 31 March 2004, and £0.7m of amounts owed to the Consolidated Fund by Oftel.

16. Creditors – amounts falling due after one year

	2004 £'000	2003 £'000
Loan funding from DTI	**28,182**	3,443
Deferred rent	**5,878**	1,967
	34,060	5,410

17. Analysis of DTI loan movement

	2004 £'000
Balance at 1 April 2003	**4,304**
Further advances	**48,000**
Less: repaid in March 2004	**(6,312)**
Balance at 31 March 2004	**45,992**

Notes to the Accounts
for the year ended 31 March 2004

18. Schedule of loans

	Amount £'000	First repayment	Last repayment	Interest rate
31 Mar 2003	4,304	Mar 2004	Mar 2006	3.70%
08 Apr 2003	500	Mar 2004	Mar 2006	4.05%
22 Apr 2003	2,548	Mar 2004	Mar 2006	3.95%
17 Jun 2003	2,439	Mar 2004	Mar 2006	3.55%
11 Jul 2003	2,206	Mar 2004	Mar 2006	3.70%
15 Aug 2003	2,481	Mar 2004	Mar 2006	4.35%
22 Aug 2003	1,000	Mar 2004	Mar 2006	4.35%
17 Sep 2003	3,372	Mar 2004	Mar 2006	4.30%
23 Sep 2003	2,000	Mar 2004	Mar 2006	4.35%
15 Oct 2003	5,607	Mar 2004	Mar 2006	4.55%
14 Nov 2003	5,102	Mar 2004	Mar 2006	4.70%
15 Dec 2003	11,920	Sep 2004	Mar 2008	4.55%
02 Jan 2004	8,825	Sep 2004	Mar 2008	4.50%
	52,304			

The weighted average interest rate as at 31 March 2004 is 4.35% (2003 – 3.70%).

In accordance with an agreement dated 14 October 2003, the DTI provided fixed rate loan funding in the periods prior to Ofcom generating income. Interest rates were set with reference to the prevailing HM Treasury interest rate at the dates of drawdown.

19. Maturity of the loan

	2004 £'000	2003 £'000
Less than one year	**17,810**	861
One to two years	**17,810**	1,722
Two to five years	**10,372**	1,721
	45,992	4,304

There is no difference between the book value and the fair value of the loan at the balance sheet date.

20. Provisions for liabilities and charges

	Redundancy & pensions £'000	Vacant property £'000	Other provisions £'000	Total £'000
Balance at 1 April 2003	–	–	–	–
Transfers in from legacy organisations	10,709	200	18	10,927
Payments made	(6,348)	(16)	–	(6,364)
Additional provision	415	22,244	1,305	23,964
Balance at 31 March 2004	**4,776**	**22,428**	**1,323**	**28,527**

The provision for redundancy and pensions includes £1.4m for future redundancy costs expected to be paid in 2004-05 and £0.9m for the costs of unfunded pensions payable to former Chairmen of the Independent Television Commission and the Radio Authority and former Director Generals of Telecommunications. The balance of £2.5m is for redundancy and early retirement costs of former employees of Oftel and the Radiocommunications Agency and is payable in the periods to 2014.

The provision for vacant property includes properties with leases which terminate between 2005 and 2020. This is in respect of properties previously occupied by legacy organisations, but now surplus to requirements. Professional advice has been taken in marketing vacant property and future income streams are recognised as and when sub-letting of properties is reasonably certain.

Other provisions reflect an assessment of costs relating to challenges to regulatory decisions. The amounts involved are expected to crystallise within one to two years.

Notes to the Accounts
for the year ended 31 March 2004

21. Reserves

	Income & Expenditure account £'000	Revaluation £'000	Total £'000
At 1 April 2003	(8,160)	–	**(8,160)**
Transfer of net assets from legacy organisations at fair value	10,959	132	**11,091**
Ofcom defined benefit pension plan	(11)	–	**(11)**
Deficit for financial year	(47,213)	–	**(47,213)**
At 31 March 2004	(44,425)	132	(44,293)

22. Reconciliation of operating deficit to net cash flow from operating activities

	2004 £'000	2003 £'000
Operating deficit	**(24,081)**	(8,160)
Depreciation	**1,637**	–
Decrease/(increase) in debtors	**957**	(314)
Increase in creditors	**23,345**	4,604
Increase in pension asset	**(31)**	–
Net cash inflow/(outflow) from operating activities	1,827	(3,870)

23. Cost of capital charges

For the DTI loan, the cost of capital is the interest payable in the year.

For the remaining net liabilities the cost of capital charge is calculated at 3.5% in accordance with HM Treasury guidance. (2003 – 6%).

24. Commitments under operating leases

	Land & buildings £'000	Other £'000	Total £'000
Annual commitments under operating leases, expiring:			
within one year	354	228	582
between two and five years	951	405	1,356
after five years	9,189	–	9,189
Total	**10,494**	**633**	**11,127**

25. Gaelic Media Service

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Secretary of State for Scotland paid £1.8m to Ofcom during the period 29 December 2003 to 31 March 2004. This sum has not been reflected in these accounts but was paid by Ofcom to the Gaelic Broadcasting Fund under the management of the Seirbheis nam Meadhanan Gàidhlig (the Gaelic Media Service). The Gaelic Media Service prepares separate reports and accounts to 31 March each year. These are sent by Ofcom to the Secretary of State for Scotland to be laid before Parliament.

Notes to the Accounts
for the year ended 31 March 2004

26. Pension schemes

The Ofcom Defined Benefit Pension Plan

The Ofcom Defined Benefit Pension Plan is a defined benefit plan which was set up at vesting date. A first full actuarial valuation will be carried out as at 29 December 2003 by a qualified independent actuary.

The employer contribution to the plan for the year ending 31 March 2004 (at rates of between 18.7% and 24.4% of members' pensionable salaries) was £0.2m per month. This rate will be reviewed following the first formal valuation. The rate was set following advice from the actuary.

Under the projected unit method the current service cost will increase (when measured as a percentage of payroll) as the members of the plan approach retirement.

Assumptions

The major assumptions used by the actuary to advise on the employer contribution rate were:

	At 31 Mar 2004 £'000
Discount rate	5.50%
Rate of increase in salaries	4.25%
Rate of increase in payment of pre-97 excess over GMP pensions	2.75%
Rate of increase in payment of post-97 excess over GMP pensions	2.75%
Inflation assumption	2.75%

Balance sheet

The assets in the plan and the expected rate of return were:

	Long-term rate of return expected at 31 Mar 2004	Value at 31 Mar 2004 £'000
Fixed interest Bonds	5.50%	20
Index-linked Bonds	4.50%	20
Equities	N/A	–
Property	N/A	–
Cash	4.50%	500
Total market value of assets		**540**
Present value of plan liability		(520)
Surplus in the plan		**20**
Unrecognised past service cost		–
Unrecoverable surplus		–
Related deferred tax asset		–
Net pension asset		**20**

Analysis of the amount charged to operating deficit	2004 £'000
Employer's current service cost	590
Past service cost recognition	–
Decrease in recoverable surplus arising from a decrease in active membership	–
Increase in recoverable surplus arising from an increase in active membership	–
Total operating charge	**590**

Analysis of the amount credited to other finance income	2004 £'000
Expected return on pension plan assets	1
Interest on pension liabilities	(8)
Refund of surplus to employer covered by previously unrecognised surplus	–
Net return	**(7)**

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)	2004 £'000
Actual return less expected return on plan assets	(1)
Experience gains arising on the plan's liabilities	–
Changes in assumptions underlying the present value of pension scheme liabilities	(10)
Increase in unrecoverable surplus	–
Actuarial loss recognised in STRGL	**(11)**

Movement in surplus during the year	2004 £'000
Employer's current service cost	(590)
Employer's contributions (including those unpaid at measurement date)	628
Refund of plan surplus to employer	–
Cost of past service benefits granted during the year	–
Other finance income	(7)
Actuarial loss	(11)
Surplus in plan at end of the year	**20**

The actuarial loss represents 2.1% of the plan's liabilities.

Notes to the Accounts
for the year ended 31 March 2004

Ofcom (former ITC) staff pension plan

Ofcom jointly participates in a contributory defined benefits pension plan, with two other independent organisations, S4C and S4C Masnachol. The assets of this plan are held in a separate trustee administered fund. The pension contributions made by each employer are determined in accordance with the advice of a qualified actuary on the basis of triennial valuations.

A valuation of the scheme as at 1 January 2004 is being carried out. The latest valuation was as at 1 January 2001, which used the projected unit method, the main assumptions being:

- a yield on the fund of 7.0 per cent per annum for investments backing non-pensioner liabilities;
- a 4.5 per cent return for investments backing pensioner liabilities;
- a 5.0 per cent return after retirement for accrued non-pensioner liabilities;
- a 5.5 per cent return after retirement for future service non-pensioner liabilities;
- an allowance of 5.0 per cent per annum for increases in pensionable salaries; and
- an allowance of 2.5 per cent per annum for increase of pensions in payment.

The market value of the plan's assets at the valuation date was £195.7m. This included the ITC Discretionary Fund of £18.8m. The value of the plan's assets, excluding the ITC Discretionary Fund and the equity fluctuation reserve, represented 109 per cent of the value of the benefits that had accrued to members after allowing for assumed increases in salaries. For reasons of conservatism, no credit has been taken during the year.

The actuary set employer contribution rate for Ofcom at 18.6 per cent thereafter, plus matching of member's added years AVCs.

Disclosures are also required in these accounts under the accounting standard FRS17 "Retirement Benefits". Ofcom is unable to identify its share of the underlying assets and liabilities of the plan, as each participating employer is exposed to actuarial risks associated with the current and former employees of the other employers participating in the plan. The pensions cost to Ofcom under FRS17 is therefore the contributions paid to the Plan by Ofcom during the year.

Unfunded pensions for former chairmen and Director Generals of legacy bodies

At 31 March 2004 provisions of £0.8m (2003 – £ nil) have been made for the pensions of three former ITC chairmen, two former chairmen of the Radio Authority and two former Director Generals of Telecommunications.

Ofcom has retained the future costs of these pensions as provided for in the accounts of the Independent Television Commission, the Radio Authority and the Office of Telecommunications as at 28 December 2003.

Stakeholder pension plan

Ofcom also contributes to a stakeholder pension plan, which is a defined contribution pension plan. Employer contributions (payable at rates between 8% and 25% dependant on staff grade) of £0.4m were made in the year ended 31 March 2004 (2003 – £ nil). At 31 March 2004, accruals of £14,000 (2003 – £ nil) were held in respect of employer contributions to the stakeholder pension plan.

27. Related parties

Ofcom does not consider that its regulatory and licensing role creates the relationship of a related party between itself and licence holders as defined by Financial Reporting Standard 8, "Related Party Transactions".

Members of the Board submit an annual declaration confirming that they have no interests prejudicial to their function as a Member of Ofcom. There were no purchases or sales transactions between Ofcom and its Members.

The following Board Members also held senior positions within legacy organisations:

David Edmonds – Director General of Telecommunications until December 2003.

Richard Hooper – Chairman of the Radio Authority until July 2003.

Sara Nathan – Member of the Radio Authority until December 2003.

The Secretaries of State for the Department of Trade and Industry (DTI) and the Department for Culture, Media and Sport (DCMS) are regarded as the controlling related parties of Ofcom under the terms of the Office of Communications Act 2002.

The DTI provided £48.0m of loan funding to Ofcom during the year. There was a repayment of £6.3m principal and £1.0m interest in March 2004. DTI provided grant in aid to fund the costs of Spectrum Management work. £29.3m was received in the year with £3.9m of this held as a creditor at 31 March 2004.

Ofcom made payments of £1.2m to DTI in respect of the full employment costs of colleagues seconded by the DTI to Ofcom in the year.

DCMS provided £0.2m of grant-in-aid during the year.

Ofcom also made payments to legacy organisations in the year, to cover the costs of staff. In addition, payments were made to the RA for IT equipment.

Regulator	Amount £'000
Independent Television Commission	2,755
Radio Authority	116
Broadcasting Standards Commission	25
Office of Telecommunications	203
Radiocommunications Agency	632

Payments of £0.9m were made to RSI prior to the transfer of the Radiocommunications Agency's shareholding to Ofcom on 29 December 2003.

28. Financial instruments

Ofcom has no significant exposure to liquidity, interest rate or currency risks. FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which Ofcom is financed, it is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Ofcom has very limited powers to borrow or invest surplus funds, all debts carry fixed interest rates and financial assets and liabilities that are generated by day-to-day operational activities do not change the risks facing Ofcom in undertaking its activities.

There is no material difference at the balance sheet date between the fair value and the carrying value of financial assets and liabilities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from this assessment.

29. Capital commitments

There were capital commitments of £1.9m at 31 March 2004 (2003 – £11.6m).

30. Receipts transferred to the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £65.6m of Broadcasting Act Additional Payments to the consolidated fund during the period 29 December 2003 to 31 March 2004. A total of £20.0m of WT Act licence fees was remitted during the same period to the Department of Trade and Industry for transfer to the Consolidated Fund. Details on amounts due to the Consolidated Fund at 31 March 2004 are disclosed at Note 15 to these financial statements.

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