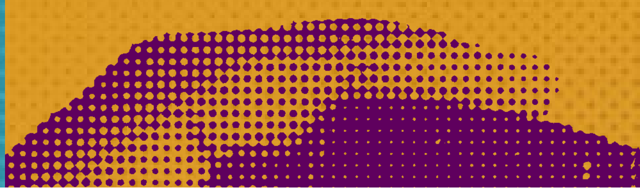
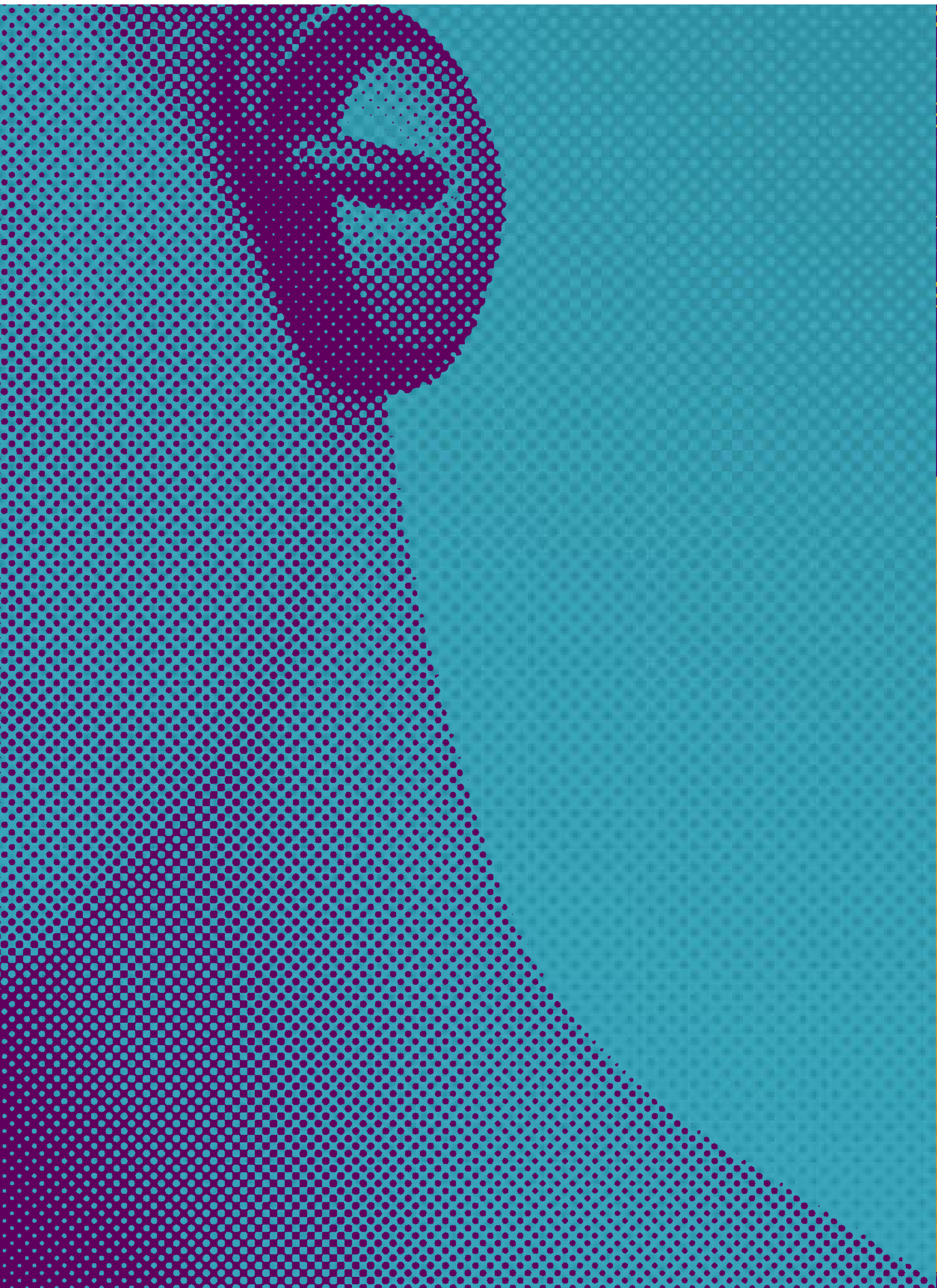



Annual Report 2006/7

Ofcom
OFFICE OF COMMUNICATIONS




OFFICE OF COMMUNICATIONS

Ofcom Annual Report and Accounts for the period 1 April 2006 to 31 March 2007

Presented to the House of Commons pursuant to the Office of Communications Act 2002, Schedule 1 (Sections 11 and 12).

Ordered by the House of Commons to be printed 12 July 2007.

HC 681

London: The Stationery Office

Price £25.00

contents

Ofcom Annual Report and Accounts for the period 1 April 2006 to 31 March 2007

section

A

Introduction

section

B

Core areas of activity

section

C

Operating and financial review

section

D

Statement of accounts and corporate governance

section

E

Accounts for the period 1 April 2006 to 31 March 2007

Chairman's Message

David Currie

Over the past year Britain's households have continued apace their conversion from analogue to digital and from narrowband to broadband.

More than three-quarters of all households now have digital television for at least their first set. And, as conversion prices have fallen, increasing numbers are voluntarily converting their secondary sets to digital – a good example of the market solving a problem that previously critics had seen as a major hurdle to digital switchover.

Towards the year-end, the UK passed a significant milestone with more than half of all households now on broadband, encouraged by cheaper prices, higher bandwidths and an increasing range of new services.

It is the players in the industry, not regulation, who create this innovation, these improved services for the consumer and wider choice in broadcast television and radio for the viewer and listener. But a good regulatory framework can help promote the competition that drives these developments. Ofcom's role in wholesale broadband regulation has been critical to the roll-out of Local Loop Unbundling, which passed the two million lines mark during the year which, alongside the three million cable broadband subscribers, means more and more homes having access to high bandwidth services, broadband TV, and low-cost Voice over IP.

Ofcom has always been clear that the 'consumer' of communications services, for whose interests we have statutory responsibility, is not just the residential but also the business consumer. Modern, efficient communications are an essential part of the infrastructure underpinning the competitiveness of Britain's firms and new technology more widely. International comparisons currently show the UK in a good light. But Ofcom has sought to ensure that at the wholesale level there is competitive supply of the key products used by a range of communications operators to provide the managed networks and services on which an increasing range of businesses and other organisations depend. As the technology enables the transition from analogue switched networks to digital IP-based networks we have facilitated the necessary intra-industry co-operation through NGN UK; and are developing the regulatory tools that will be necessary to secure fair interconnection and allow efficient investment and effective competition in a very different technology environment from the one today's regulation has been designed for.

Another key role for regulation is in the management of the wireless spectrum. Not just in planning spectrum deployment for digital switchover in broadcast television – important though that is – but in making more and more spectrum available for a market which is finding ever-increasing ways to use it from low-powered, licence-exempt devices to mobile TV to WiMAX wireless broadband. In the past year progress continued towards market-led provision and use of spectrum: in the secondary market, spectrum trading has increased and in the primary market Ofcom has held its first auctions, including the first ever co-ordinated auction in both Northern Ireland and the Republic allowing the winner scope to deploy all-Ireland wireless broadband, of considerable importance and interest to Ireland's rural communities North and South of the border.

Internationally, Ofcom led the UK delegation to the 2006 ITU Regional Radiocommunication Conference which, despite its arcane title, is fundamental to the shift from analogue to digital broadcasting, not just in the UK, but in large parts of the world. It is a tribute both to the very effective system in place between Ofcom and the Government for co-ordination of the interests of UK spectrum users, and to the capabilities and long experience of the Ofcom-led negotiating team, including key industry representation, that the UK achieved all of its negotiating objectives. This will bring substantial benefits in the years ahead to UK users of wireless spectrum, including much more flexibility in the way spectrum can be used.

Ofcom has twin statutory responsibilities – to the consumer, but also to the citizen interest. The latter was furthered during the year both through research, such as the digital inclusion project which examines how all citizens, including minority groups, can benefit from new services; and through practical action such as the development of the third tier of radio – not-for-profit community radio – run by and for local communities. The second round of licensing, undertaken last year, brings the number to over a hundred such new radio stations up and down the country.

One of the most important tasks for any Chairman is the selection of the right Chief Executive for the organisation. In July last year Stephen Carter, Ofcom's first and founding Chief Executive, left to pursue new avenues in his career. Stephen's achievements in successfully establishing Ofcom and in the early, big policy calls were outstanding. Two of Stephen's achievements had a particular bearing on the open competition to find his successor. Firstly, the strong reputation Ofcom established under his leadership made the Chief Executive role attractive to a range of high calibre external candidates. Secondly, the very capable executive team Stephen had built around him meant there was also a very strong internal field. In the end we were very pleased to be able to appoint the best candidate from both inside and outside Ofcom – Ed Richards, formerly Ofcom's Chief Operating Officer and Senior Strategy Partner.

Ed took up his new role in October. As one of the founding team, he has brought continuity. But he has also already begun a programme of refreshment and new focus both internally to the organisation and in Ofcom's external priorities.

A key development of emphasis has been the insight that, while effective competition is a necessary part of a well-functioning market, it also needs informed, empowered and protected consumers to take full advantage of the market. It is the customer for whose benefit the market exists. New technologies and new services can bring great benefits to most consumers; but they can also lead to scams, fraud and nuisance for a minority of consumers.

Over the past year Ofcom has substantially increased the pace of its consumer protection and investigations activity. New fining powers against the nuisance of silent calls have been used to the full. Robust investigations of slamming and mis-selling of telecommunications services have been undertaken. Some of the worst offenders have been driven out of the market place. But the problem persists and we will continue to bear down on it. As this Report went to print a number of high-profile investigations into alleged misconduct in Call Quiz TV and other premium rate phone services over broadcast TV were still under way.

Sometimes the problem is not active anti-consumer behaviour but a lack of incentives across the industry to go the extra mile in back office practices to ensure a good consumer experience. This is particularly true of consumer switching and migration. Over the past year Ofcom has taken the lead to ensure that all in the industry have systems that operate to the level of the most responsible and customer-focused companies, so that consumers can shop around and switch if they wish easily and simply.

In addition to the fresh insights he has brought, Ed Richards has also brought one very welcome element of complete continuity with his predecessor: the determination that Ofcom should be a value for money regulator for our stakeholders. In March the Ofcom Board approved a budget which, for the fourth year in succession, continues the real-terms cut in the cost of regulation.

In any new organisation, the launch team can expect to experience significant turnover after three to four years. Ofcom has been no exception. A number of the senior executive team who first joined Ofcom in 2003 have moved on, including two Executive Members of the Board. Kip Meek, who has done a vital job in projecting Ofcom's policies and values internationally, left at the end of 2006. The effectiveness of the European Regulators Group, which Kip chaired during 2006, has been significantly improved; and the course of the Audio- Visual Media Services Directive has been changed to be one much more congenial to the UK's interests and expectations. Ian Hargreaves, who has been a Non-Executive Member of the Ofcom Board since 2002, has become an Executive Member of the Board assuming Kip's international mantle and over-arching responsibility for Ofcom's presence in the Nations and Regions.

Sean Williams, who was a key architect of the process which led to the BT Undertakings and functional separation – a concept which is now being emulated in the EU and more widely internationally – also left at the end of the reporting year to take up an important role at our sister regulator the Office of Fair Trading. He is replaced on the Ofcom Board by Philip Rutnam, the Ofcom Partner responsible for Spectrum Policy. This recognises the importance of spectrum developments in Ofcom's thinking.

Finally, I should thank the statutory and non-statutory boards who have provided invaluable input and advice to us. First and foremost of course is the Ofcom Content Board whose activities are covered in Philip Graf's separate report starting on page 14 but also the Consumer Panel who help us to put the individual consumer experience front and centre of our thoughts; the Advisory Committee on Older and Disabled People; the Ofcom Spectrum Advisory Board and our National Advisory Committees. In addition to their input to our Annual Plan as it is being formed, the Ofcom Board values the direct interaction we have with each of the Committees when we visit the Nations and main cities outside London. We welcome and continue to wish to engage with those views so we can serve UK consumers and citizens in the years ahead to the best of our abilities.

David Currie, Chairman

Chief Executive's Report

Ed Richards

Three years ago Ofcom was founded on a vision that convergence would take place in the communications sector; the convergence of services and technologies and the convergence of companies providing them. However, in December 2003, when Ofcom was created, there was little real convergence to speak of. Most companies still did what they had traditionally done, whether it was providing a landline phone service, a mobile service, internet access, or television or radio broadcasting.

Three years on, there has been tremendous change in the sector; today convergence has come of age. We can buy a bundle of landline, mobile, television and broadband services from just one provider. We can make phone calls over the internet, listen to the radio on digital television, watch television programmes on-demand over broadband and download video content to mobile phones. We can even redirect our favourite television show to any place in the world from our home set-top box.

For consumers, convergence means increased choice, lower prices, greater flexibility and personal control. Ofcom believes that the interests of citizens and consumers are best served by regulating for convergence, by promoting competition and taking measures where necessary to secure the broader public interest.

This Report sets out what we have done in 2006/7 to regulate for convergence. It also describes the steps that we have taken to become more efficient, reducing the burden we place on the communications sector we regulate.

Much has been achieved over the last three years in the communications sector, but there remains much more to do. For that reason we are now looking forward to the next three years and at the end of this section I set out how we plan to respond to some of those challenges.

The sector and Ofcom

One of the building blocks of convergence is radio spectrum. This finite resource underpins all modern communications and society's increasing desire for mobility means that demand for spectrum is greater than ever before. Ofcom's research has found that business activity that is largely dependent on spectrum contributes £37bn, or three per cent, to the UK GDP and the economic impact of spectrum use has increased by 50 per cent in just over three years.

More efficient spectrum use brings significant benefits to consumers, with the launch of new technologies and increased competition between service providers, bringing the potential for greater choice and lower prices.

In 2006/7 we made significant progress in delivering our strategy of securing the greatest possible use of this valuable resource. We completed our first two spectrum auctions, with 13 organisations being awarded new licences to use the spectrum. We also developed and consulted on proposals for the most effective way to release the spectrum that will be freed up through the switch to all-digital television in 2012 – the so-called digital dividend – as well as spectrum at 2.6 GHz and the 'L-Band'. These spectrum releases will create new opportunities for innovation in wireless technologies, with potential uses including wireless broadband, new digital television services, mobile television and low-power applications, such as wireless home-hubs.

Following last year's conclusion of the Strategic Review of Telecommunications and the acceptance of Undertakings from BT Group plc, we have continued to monitor progress in the delivery of the Undertakings. They were designed to enable genuine competition at the deepest levels of infrastructure for the benefit of consumers and the communications sector as a whole. In 2006/7 this new regulatory approach started to deliver sustainable competition and greater investment in infrastructure. By March 2007 some two million lines had been unbundled, enabling providers other than BT to take full control of the loop connecting homes and businesses to the local telephone exchange, offering consumers fresh competition and service innovation.

During the reporting period the UK overtook the US in broadband availability and the UK now stands second in the league table of G7 countries, with only Canada ahead. In addition, broadband speeds have continued to increase, with average headline connection speeds in the UK now above 3.8 Mbit/s. The consumer response to these developments has been positive. Ofcom's research showed that at the end of March 2007 over half of UK adults had broadband at home, a seven-fold increase over the last four years. We realise, however, that the market is rapidly changing. To maintain progress in the future, we must ensure that the UK has the right regulatory environment to allow competition and innovation to flourish to further benefit the UK economy and consumers as next generation services come on stream.

In fixed-line phone services, more than 10.7 million UK households and small businesses use a telecoms provider other than BT – among them more than 4.6 million cable customers – enjoying some of the cheapest phone costs in the world. This enabled us in July 2006 to remove retail price controls that imposed a limit on BT's line rental and call charges, which had been in place for 22 years. Alongside this, BT agreed to safeguards for low spending users and gave assurances that it would offer additional protection for customers on low incomes and vulnerable groups.

The mobile phone has now become as important to consumers as their landline. The same number of UK households now has a mobile phone as a landline; and for the first time, the proportion of households relying on mobile phones exclusively (10 per cent) is the same as the proportion who only use landline phones. Consumers benefit from competition between five mobile network operators and a number of virtual network operators in the UK. In March 2007 we moved to secure further savings for consumers by setting new charge controls that limit the amount that mobile network operators are able to charge other telephone companies for connecting calls on their networks. We expect that this will lead to an annual reduction in wholesale charges of £400-£500m over four years; savings which we expect to be passed on to retail customers.

In broadcasting, the switch to digital television continued apace, with over 77 per cent of UK television households viewing digital television across a variety of platforms by March 2007. However, the move from analogue to digital television also presents a challenge. Digital switchover and multi-channel television will make it more difficult for the commercially-funded public service broadcasters to sustain all their obligations in a digital age, presenting a stark challenge in terms of maintaining the existing level of plurality in public service provision. In 2006/7 we embarked on a major work programme that will begin to address this complex issue. In March 2007 we established an evidence base for assessing the effectiveness of the public service broadcasters by publishing our first Annual Report of Public Service Broadcasting (PSB). One of the report's key findings was that PSB programming aimed at children was particularly valued by parents and we launched a review of children's programming, with the results due in summer 2007. After the period under review we also published a paper on news provision in the UK.

Ofcom's Public Service Broadcasting Review published in 2004/5 concluded that a not-for-profit, commercially-funded Channel 4 should remain an integral part of PSB. It also found that the transition to digital television would create a number of challenges for the broadcaster. In 2006/7 we commissioned an independent financial review of Channel 4. The results, published in April, clarify the challenges facing Channel 4 and set out the possible future funding options for the broadcaster. One way of sustaining PSB in the digital age is through the creation of a body to commission new media content focused on meeting public purposes. In 2006/7 we fleshed out our proposals for a Public Service Publisher with a discussion document that developed its proposals. This work will be taken forward in the next PSB review.

On 1 January 2007 the new BBC Royal Charter Agreement came into effect. With this came a new responsibility for Ofcom in conducting Market Impact Assessments (MIAs) into the likely impact that the launch of new BBC services or changes to existing services might have on other companies or markets. We conducted our first MIA in 2006/7 into the BBC's proposed iPlayer. The conclusion, that the service could provide significant value to licence fee payers but could also deter investment in certain commercial markets, was delivered to the BBC Trust at the end of January 2007.

In radio, the importance of digital radio continued to grow, with sales of DAB sets outstripping analogue, helping to increase the average total number of hours that people listen to the radio in the UK to 24 a week. In July 2006 we launched a programme to expand DAB services by inviting organisations to bid to operate a second national UK radio multiplex and the first of 12 local DAB multiplex licences. At the end of the reporting period Ofcom had received two applications for the national licence; Ofcom plans to announce the winning bidder later in 2007, with new services beginning in early 2008.

Despite the new opportunities for radio broadcasting, the commercial radio sector faces some significant challenges. For established broadcasters, the dramatic increase in choice brings new competition for listeners. Broadcasters also face higher costs from having to invest in new technologies at a time when advertising revenue growth is stalling. These factors, which were not foreseen a few years ago, are having a profound impact on the radio industry and in April 2007 we published a consultation on a possible framework for the future regulation of the sector.

The consumer and citizen interest

Ofcom's approach to regulation and competition is delivering benefits to consumers in terms of falling prices, increased reported levels of satisfaction and a greater availability and range of services. Ofcom research showed that the cost of a typical 'basket' of residential communications services had fallen by one-third over four years. It also showed that overall customer satisfaction remained high, between 88 per cent and 93 per cent. However, the results of technological change can be double-edged. With change comes complexity, and with complexity comes the increased potential for business practices that harm consumers and other forms of abuse.

In 2006/7 we continued to build on and strengthen our enforcement activity. We introduced new rules to prevent mis-selling and slamming – where a customer is moved from one telecoms provider to another without their consent – and took action against the worst offenders. We also reduced the potential for silent calls through the introduction of new rules and increased penalties.

Much of the recent consumer concern has been focused on standards on television. Ofcom received almost 45,000 complaints about Channel 4's broadcast of *Celebrity Big Brother* alleging – among other things – racist abuse and bullying. We take such allegations extremely seriously and announced while the series was on air that we would launch an investigation into the programme. In May 2007 Ofcom published its adjudication on Channel 4's broadcast of *Celebrity Big Brother.* Our investigation found that Channel 4 had made serious editorial misjudgements, compounded by a serious failure of its compliance process, putting it in breach of the Broadcasting Code. Ofcom imposed a statutory sanction on Channel 4 requiring it to broadcast a summary of Ofcom's finding on three separate occasions.

Another area of considerable concern has been around quiz television programmes and other forms of participation television, which rely on interaction with viewers through premium rate telephone services.

In response to specific concerns, we published in April 2006 additional guidance to the Broadcasting Code aimed at competitions in television programmes and on quiz channels. And in December 2006 we set out the next steps towards potentially toughening up the rules, addressing whether certain services should be considered to be editorial – subject to the Ofcom Broadcasting Code – or advertising – subject to the Advertising Code. In March 2007, after viewers and others raised serious concerns regarding apparent systematic compliance failure on the part of a number of broadcasters, we announced an inquiry into the use of premium rate telecoms services in television programmes. The inquiry will report in early summer 2007.

Co-ordination between regulators is essential in this area, and Ofcom continues to work closely with the premium rate regulator ICSTIS to ensure that consumers are protected. When evidence has emerged of potential compliance failures, Ofcom has acted. We currently have over 20 separate cases under investigation about call-in television quizzes and we will use the full range of our statutory powers to impose sanctions on licensees – including fines – where it is warranted.

In 2006/7 we also introduced new rules on the television advertising of food and drink products to children. This followed a consultation where we received more than 1,000 responses from a broad range of people and organisations. New content rules were introduced on 22 February 2007 and scheduling rules on 1 April 2007. With the new rules in place, in households where children's viewing also includes a large number of programmes targeted at adults, under-16s would see 41 per cent fewer advertisements for products that are high in fat, salt and sugar. For under-9s, the reduction would be 51 per cent. We will review the effectiveness and scope of the new restrictions in autumn 2008.

All Ofcom's work is underpinned by its duty under the Communications Act to secure a wide range of services to people living in different parts of the UK. In April 2006 we published a comprehensive review of communications in the Nations and Regions of the UK, comparing findings across Wales, Scotland, Northern Ireland and the nine English regions. The results informed our work programme for the current year; and shortly after the period under review we published our second Nations and Regions review.

International

Ofcom's activities, and those of the companies it regulates, are increasingly influenced by the international agenda. In 2006/7 we played a key role in shaping the debate on a number of important international policy developments. Ofcom continued its negotiations on the European Commission's proposed Audio-Visual Media Services Directive. We argued that the proposal to extend regulation beyond television broadcasting to include on-demand media would not be effective in protecting the interests of citizens and consumers and would have a damaging effect on innovation. In November 2006 the Council of Ministers agreed on a General Approach in relation to the proposed Directive which was a significant improvement on the Commission's original proposals.

We also contributed to the Commission's review of the EU communications regulatory framework that underpins Ofcom's approach to the economic regulation of the telecoms markets. Ofcom argued that the functional separation remedy – that led to the creation of BT Openreach and which stemmed from the Strategic Review of Telecommunications – should be available to other European regulators. In March 2007 the EU telecommunications commissioner endorsed this approach.

In May 2006 Ofcom led the UK delegation to the International Telecommunications Union's Regional Radiocommunication Conference. This secured international agreement in two crucial areas: it established the spectrum frequency plan required for UK digital television switchover which will take place between 2008 and 2012; agreement was also reached which will pave the way for Ofcom to release the digital dividend spectrum for new uses.

Reducing regulatory burdens

Ofcom is committed to reducing its regulatory burdens on its stakeholders. A desire to remove unnecessary and out-of-date regulation underpins all of our work; in December 2006 Ofcom published its Simplification Plan which set out a range of measures to reduce the burdens on stakeholders.

Specific areas of deregulation in 2006/7 include:

- Removing retail price controls, see page 25
- Simplified spectrum licensing, see page 22
- Legalising low-power FM transmitters, see page 22
- Television channel and radio sponsorship, see page 35
- Television appeals for donations, see page 35
- Pay-television channels on Freeview, see page 36
- Restricted Service Licences, see page 38

Reducing costs and improving efficiency

Ofcom is predominantly funded by industry. Because our operating costs are a net cost to the bottom line of the companies we regulate, we are committed to increasing our own internal efficiencies.

When Ofcom was created we committed ourselves to year-on-year real-terms reductions in our operating budget and we have consistently delivered on that commitment. The broadcasting licensees and communications providers that fund Ofcom's activities have experienced consecutive real-terms reductions in their fees for the last three years. The year 2007/8 will be no different: for the fourth successive year Ofcom will operate under a budget which is lower in real terms than the budget for the previous year.

To cover the cost of establishing the organisation Ofcom received a £52.3m loan from the Department of Trade and Industry. By the end of the 2007/8 financial year Ofcom will have repaid the loan, together with the accumulated interest. From 2008/9 onwards, therefore, the loan will no longer be recouped through regulatory fees, reducing further the financial burden on stakeholders.

The reduction in our operating budget is driven by a consistent desire to improve our operational efficiency. When Ofcom was created it inherited 45 properties from the previous regulators; 24 properties have now been disposed of, or surrendered to the landlord. In 2006/7 this included the surrender of the lease at South Quay Plaza 3 in London's Docklands and progress in subletting a further floor at the London head office at Riverside House.

We have continued to make efficiency savings with our information systems (IS). When Ofcom was created we inherited around 70 systems from the legacy regulators. In the previous reporting period Ofcom launched a programme, called Project Unify, to integrate these systems which are used in areas as diverse as licensing, field operations, finance, human resources, project management and the Ofcom Contact Centre. This programme is already paying dividends, with a single IS system now operating across many parts of the organisation.

Looking ahead

In Ofcom's first three years we completed strategic reviews of telecoms, public service broadcasting and radio spectrum. In order to meet the challenges of convergence, we are now looking forward to the next three years to provide a clear sense of how we will respond to the challenges that are happening in the communication sector.

In April 2007 we published our Annual Plan; this set out a three-year strategic policy framework. In spectrum we will further develop our market-based approach to its management. This will include major releases of spectrum, including the sought-after digital dividend. We will also continue to promote spectrum liberalisation, removing unnecessary barriers to the most efficient use of this valuable resource. Work in this area will include a consultation on the liberalisation of the existing 2G mobile licences that are currently restricted to GSM services.

We will promote competition and innovation in converging telecoms and broadcasting markets. Central to this will be to ensure that BT Group plc continues to comply with its Undertakings by giving competitors equivalent access to the wholesale products they need to provide services to consumers. We will also ensure that competition thrives as next generation networks and next generation access develops and we will undertake a number of projects to promote competition in television broadcasting markets. This will include conducting a market investigation into the pay television industry, which we started at the end of 2006/7.

We will maintain our focus on delivering the public interest. Over the next three years, projects will include rethinking PSB for the digital age, which will include the start of the next statutory review of PSB later this year, and continuing our work on the future of radio, which will include our approach to content and ownership regulation. This work will be taken forward with close involvement from the Ofcom Content Board.

Another priority will be to improve compliance by the businesses we regulate by taking a more targeted approach to enforcing the rules designed to protect consumers and citizens and identifying the practices that have the potential to cause most harm to people. We will also seek to empower citizens and consumers by promoting media literacy and by ensuring that consumers have the information needed to make informed choices.

I would like to thank all my colleagues for their hard work over the year. I would also like to thank our stakeholders for their valuable contributions to our numerous consultations during 2006/7. This debate has led to more informed policies and decisions for UK citizens, consumers and the communications industries, and I look forward to continuing the debate in 2007/8 and beyond.

Ed Richards, Chief Executive

Annual Report of the Content Board

Philip Graf

The delivery and consumption of media content is undergoing significant change in the UK. A few years ago broadcast content was available on just television or radio; today broadcasters are delivering services over the internet, on mobile devices, on digital television and radio, as well as on the traditional analogue platforms. Many consumers no longer simply tune into the television or radio for scheduled programming; today they view or listen to the content of their choice when and where they want, and obtain many different services on one platform.

With this change comes uncertainty: uncertainty for some consumers in their ability to make informed choices and obtain value for money; uncertainty around the traditional approach to content regulation; and uncertainty over the future delivery of public service broadcasting content in this digital age.

The Content Board is a committee of the main Board with delegated and advisory responsibilities for a wide range of broadcasting content issues and media literacy. In 2006/7 the Content Board's wide-ranging work programme placed these issues at the forefront and I asked individual Members to take responsibility for specific projects, which I will come on to later in this report. In 2006/7 the Content Board also addressed more traditional policy matters related to linear television and radio broadcasting.

Work in 2006/7

In television broadcasting, the Content Board approved the first Ofcom Public Service Broadcasting (PSB) Annual Report, which detailed the appeal and effectiveness of PSB in the UK. This included new research on audience attitudes to PSB delivery on the various channels, as well as extensive data about programme output and viewing patterns. The report provided a valuable source of objective industry data as a baseline for use alongside the broadcasters' own documents.

The Board was involved in the launch and policy discussion surrounding Ofcom's first Media Literacy Audit of the UK and the development of a common framework for providing viewers with information about potentially harmful or offensive audio-visual content. At the end of 2006/7 Members provided the strategic direction in the current review of Ofcom's priorities for the promotion of media literacy over the next three years.

Another theme of the year was growing concern over television and radio programmes that charge viewers to interact with them, such as quizzes. Ofcom launched a major inquiry, led by non-executive Content Board member Richard Ayre, formerly Controller of Editorial Policy at the BBC, focused on apparent abuses connected with the use of premium rate telephone services. The inquiry was due to report after the period under review. Ahead of this, the Content Board also approved strengthened guidance to the Broadcasting Code rules for viewer competitions. For details of Ofcom's work in relation to participation television and quizzes see the Chief Executive's Report on page 7.

The Content Board remained engaged with Ofcom's work in connection with the European Audio-Visual Media Services Directive (AVMS). It welcomed recognition for Ofcom's position that future regulation under the Directive should be confined to television-type services, rather than all forms of internet content. The Board favours a modest relaxation of product placement in programmes; further action on this will be dependent on the finalisation of the AVMS. The Board also agreed, subject to certain safeguards, the sponsorship of channels, in addition to programmes, and appeals for donations to television broadcasters themselves, as well as for other charities. This brought television rules in line with radio.

The Content Board agreed a major consultation document on the future licensing and regulation of radio, reflecting in particular the increasing number of people listening on digital platforms, such as DAB and the internet.

The Board brought programming perspectives to the sensitive judgements made by Ofcom in relation to food advertising and children. It helped to strike the balance of protecting the nation's health with the need to sustain quality programming on commercial television, and in particular to provide dedicated children's output on the main public service networks and other children's channels.

The Fairness and Privacy Committee, chaired by Kath Worrall, adjudicated on 29 of the most serious complaints, concerning alleged unfairness and invasions of privacy in programmes. For details of Fairness and Privacy Committee cases, see page 68 of Section C. For details of the Content Sanctions Committee, see page 69 of Section C.

2007/8 and beyond

As the boundaries between media blur, the application of traditional content rules become increasingly more difficult. The current model of binary regulation, where television is regulated and the internet is not, is being stretched.

In 2007/8 and beyond, the Content Board will help to shape Ofcom's future approach to content regulation. The discussions around the AVMS Directive are a staging post for what will be the start of a transformation of the current model of regulation to a longer term vision for content regulation.

In public service broadcasting, the Content Board will contribute to the work on the next statutory review of PSB which will start later this year. The review will consider whether the existing approach to maintaining PSB may become unsustainable, particularly following the switch to digital television in the UK which will complete in 2012. The Content Board will examine the extent to which it is desirable for platforms to be subject to different regulatory frameworks as the same content is available on many different platforms. Members will also contribute to the further development of the concept of the Public Service Publisher, a commissioner of new media content focused on meeting public purposes. For details of Ofcom's work in relation to PSB, including the financial review of Channel 4 and children's programming, see the Chief Executive's Report on page 7.

As the way media is produced, distributed and consumed changes, and as regulation adapts to this new digital age, it is important that people are able to assess for themselves when media is and is not regulated. For this reason, media literacy will be central to the Content Board's work in the coming years. This will include a review of how Ofcom engages with other organisations to facilitate media literacy content and a research programme to understand how people relate to content and services.

Much of the Content Board's work in these new areas is already under way. Our new Member for Northern Ireland, Paul Moore, is closely involved with media literacy work; Joyce Taylor, the new Member for Scotland, is taking a close interest in an Ofcom project on the future of children's programmes; and similarly Richard Ayre with our study on the prospects for television news after digital switchover. In 2006/7 consideration of new guidance to protect children appearing in television programmes was led by Kath Worrall, together with Joyce Taylor and the Board's Deputy Chair, Adam Singer. Anthony Lilley played a major role in scoping the potential role for Ofcom's proposed Public Service Publisher.

Operation of the Content Board

In my first full year as Chairman, I conducted a review of the Content Board's operations. This resulted in a slight reduction in membership to 12, shorter and more focused formal monthly meetings, and a new approach to meetings with broadcasters and other stakeholders, aligning this firmly to projects with which the Content Board was actively involved.

We also welcomed to the Content Board Millie Banerjee, who replaced Sara Nathan, the outgoing Deputy Chair, as the Main Board representative on the Content Board. Ofcom's Director of Standards, Chris Banatvala, joined as an Executive Member in succession to Kip Meek, who stepped down towards the end of 2006 prior to his departure from Ofcom.

May I take this opportunity to extend my gratitude to Kip, and to other founder members of the Content Board whose terms came to an end in 2006/7: Floella Benjamin, Kevin Carey, Jonathan Edwards, Rosemary Kelly and Matthew MacIver. I would also like to make special mention of Sara Nathan who was instrumental in establishing the Content Board in 2003 and who has been invaluable in helping to guide and inform the Content Board in its first few years.

Philip Graf, Chairman, Content Board

Section B Core Areas of Activity

Spectrum

Radio spectrum is a valuable and finite resource that underpins all modern communications as well as essential services such as defence, transport, the emergency services and healthcare. The importance of this resource to society is growing; consumers are demanding and using more wireless services, and communications companies are responding to that demand with new products and services.

Research commissioned by Ofcom showed that business activity that is largely dependent on spectrum contributed £37bn, or three per cent, to the UK's GDP in 2005/6. The research also demonstrated that the economic impact of spectrum use had increased by 50 per cent in just over three years.

In January 2005, Ofcom published its Spectrum Framework Review: Implementation Plan. This set out a programme to release around 400 MHz of prime spectrum in the next few years; to introduce measures that will enable organisations to buy and sell rights to use spectrum; and to reduce or remove the restrictions that limit the use of spectrum for a particular purpose or technology.

In 2006/7, Ofcom made significant progress in delivering the Implementation Plan, with the first Ofcom spectrum auctions, progress in preparing for future awards, and steps taken to deregulate and liberalise the use of the spectrum.

Spectrum release and efficiency

Digital Dividend Review

One of the most significant releases of spectrum in the UK will result from the switch to all-digital television broadcasting beginning in October 2007 and ending in 2012. Digital broadcasting is more efficient in the use of the radio spectrum than analogue. Switchover will therefore allow both a large expansion in the capacity of terrestrial broadcasting and the release of a significant amount of spectrum for potentially new and innovative uses.

The spectrum that can be released – the so-called digital dividend – is in the sought-after UHF band. Transmissions in these bands cover large geographical areas with relatively few base stations, offering network roll-out at lower costs when compared to services delivered using higher frequencies. In addition, the amount of spectrum released through switchover is one of the largest in the UK for many years, making the review into the most effective use of the spectrum one of the most important decisions Ofcom will take.

In December 2006 Ofcom published its Digital Dividend Review (DDR) for public consultation, setting out proposals for the most effective use of this radio spectrum.

Ofcom's primary duty is to further the interests of citizens and consumers. To do this it is required to secure the optimal use of the spectrum. These duties (among others) defined Ofcom's principal objective for the DDR – to maximise the value of the digital dividend to society.

Ofcom research identified many possible uses – or combinations of uses – of the spectrum. Those include: local digital television; new national digital television in standard or high definition; mobile television; radio microphones; wireless broadband; mobile communications; and low-power applications, such as wi-fi in the home.

Ofcom proposed that the most effective way to maximise the value to society of the spectrum was to give freedom to spectrum users, with appropriate incentives, to decide how these frequencies should be put to use. The consultation document proposed to award licences to use the spectrum by auction as the most open and transparent mechanism available.

Subject to the outcome of the DDR, licences may be awarded in early 2009, with spectrum becoming available on a region-by-region basis as each phase of the digital switchover programme is completed.

In a number of cases, Ofcom made specific proposals that were relevant for particular spectrum uses:

- Wireless microphones for community use, such as in places of worship, schools and small theatres. Ofcom proposed to continue making spectrum available for this use, but to deregulate it by making access free of charge and licence-exempt.
- Programme-making and professional wireless microphone use. Programme- and film-makers, theatres and events organisers currently use reserved UHF spectrum. This requires co-ordinated access to the spectrum to prevent interference. In the consultation document Ofcom proposed to make a number of UK-wide packages of spectrum available at least until 2012 to ensure smooth transition to a market-based approach. Ofcom published a second, targeted consultation document that set out further proposals for access to spectrum by programme- and film-makers, theatres and events organisers in June after the reporting period.
- Local television broadcasting. This is particularly suited to interleaved UHF spectrum – the 'white spaces' that exist geographically between the television transmitters to prevent interference. Ofcom proposed to release more than 40 assignments of interleaved spectrum that would be suitable for this use (but not limited to it) in particular geographic areas.
- Reserving spectrum for innovation. Ofcom said it was consulting on whether to hold back a small amount of spectrum until after digital switchover, to ensure that new developments – such as low-power wireless uses – have access to UHF spectrum.

Ofcom received nearly 750 written responses to the consultation from a wide range of organisations and members of the public. The views will inform how Ofcom will take forward the proposals, with further publications on the digital dividend later in 2007.

Details of Ofcom's work in relation to digital switchover can be found on page 31.

2.6 GHz and related bands

In November 2006 Ofcom published proposals for the UK's largest single release of radio spectrum, which could be used for a range of innovative mobile services and other applications.

The consultation sought views on proposals to auction licences for three spectrum bands: 2500-2690 MHz; 2010-2025 MHz; and 2290-2300 MHz. In total, 215 MHz of spectrum would be available.

Ofcom's research identified a number of possible uses for the bands, including: mobile broadband wireless services, using technologies such as WiMAX; mobile multimedia services, such as mobile television; advanced mobile services using technologies such as UMTS; and mobile broadcast, such as wireless cameras for outside broadcasts.

Ofcom proposed to release the spectrum in two separate auctions:

- The bands 2500-2690 MHz and 2010-2025 MHz would be packaged into a number of lots and auctioned together, with participants able to bid online for multiple lots.
- The bands 2290-2300 MHz would be packaged as a single lot, and auctioned through a sealed-bid process.

For the award of the bands 2500-2690 MHz, multiple licences would be granted and all licences would be tradable.

Other proposed spectrum awards

During 2006/7 Ofcom published proposals for two further spectrum auctions.

In April 2006 Ofcom announced proposals to auction a single licence for the frequencies at 872-876 MHz paired with 917-921 MHz. Possible uses of the spectrum include a range of mobile radio, public safety communications and local mobile voice and data services. The licence would cover the whole of the UK.

In June 2006 Ofcom published proposals to auction licences at the 10 GHz, 28 GHz and 32 GHz frequencies. Potential uses include: video link broadcasting and wireless cameras; high-capacity, high-speed data connections for mobile and fixed broadband networks; and broadband access networks.

During 2006/7, Ofcom also worked closely with the Government to create new opportunities for using the frequency bands occupied by the public sector. The Government is committed to opening up a significant proportion of its holdings by 2010 and, as recommended by the Independent Audit of Spectrum Holdings led by Professor Martin Cave, Ofcom is playing a key role in achieving this by extending market mechanisms to this spectrum. In 2006/7 Ofcom commissioned and, shortly after the reporting period, published a consultants' report on extending Administered Incentive Pricing to the aviation and maritime sectors. Ofcom also supported trials to develop criteria for public bodies to share the use of certain bands with other users.

Completed spectrum awards

On 20 April 2006 Ofcom completed its first spectrum auction, awarding Wireless Telegraphy Act licences to 12 companies for the 1781.7-1785 MHz paired with 1876.7-1880 MHz bands.

The licences to use the 6.6 MHz of spectrum on a low-power basis were awarded on a technology and service neutral basis, which means that the licensees have the freedom to use the spectrum how they wish, within certain technical limits. In total the auction raised £3.8m. The first products have now been launched using these licences, for example by the Private Mobile Networks business of Teleware.

A second auction was held on 5 October 2006, for the 412-414 MHz paired with 422-424 MHz frequencies. The auction was for 4 MHz of spectrum in four lots, with a single buyer Arqiva securing all four with a bid of £1.5m. Arqiva has said that it is now considering where networks could be deployed using this spectrum, and the scope for acting as a band manager.

After the reporting period, Ofcom completed its third spectrum award in May 2007, issuing a licence to Personal Broadband UK Limited to use the 1785-1805 MHz frequencies in Northern Ireland. This was a coordinated award between Ofcom and the Commission for Communications Regulation in the Republic of Ireland, which also held an auction to use the same frequencies in the Republic. Personal Broadband also won the licence to operate in the Republic, offering the opportunity for the development of wireless services on an all-Ireland basis.

Access to new spectrum frequencies

In 2006/7 Ofcom announced proposals to increase opportunities for the use of the higher-frequency spectrum bands of 71-76 GHz and 81-86 GHz. These bands were not previously in commercial use. However, due to technological developments the bands could be used for very high capacity, point-to-point wireless networks – a potential alternative to fibre-optic cable.

Ofcom announced that because it does not expect demand for the spectrum to exceed supply it would introduce a flexible, light licensing system to use the spectrum. Licensees would pay £50 per link per year, with an unlimited number of assignments possible in the spectrum band. The licensing system was introduced in March 2007.

Spectrum pricing

In July 2006, Ofcom published proposals to introduce pricing for spectrum used for digital terrestrial radio and television.

Known as Administered Incentive Pricing (AIP), the proposals would bring radio and television users in line with most other spectrum users, such as the emergency services and the Ministry of Defence. AIP would reflect the value of spectrum to other potential users and its introduction is designed to ensure that spectrum is used efficiently.

In June 2007, after the reporting period, Ofcom announced that it would introduce AIP for spectrum used by digital terrestrial broadcasting in 2014.

Deregulation and licence exemption

Simplifying licensing

As part of its aim to reduce regulation of radio spectrum and introduce new flexibility, Ofcom announced proposals in July 2006 to streamline the licensing of private radio communications. These are used by many businesses, from taxi and courier firms to major utilities and supermarkets.

Following a consultation, the proposals were introduced in January 2007 and included measures to: reduce the number of licence classes; remove restrictions on technology use; simplify licence administration; and increase the number of licences that can be traded.

In December 2006, Ofcom launched a new online licensing service for ships' and amateur radio users. The new system reduced the administration and cost for over 130,000 individual licensees.

Ships' radio licences are now free of charge when obtained online and are valid for the life of the vessel. Licensees are required to verify their details at least once every ten years.

Amateur radio licences are valid for life, with holders also required to confirm their details at least once every five years. Licences obtained online are free of charge.

For key performance indicators on spectrum licensing, see page 64 of Section C.

Legalising low-power FM transmitters

With the increasing number of MP3 players and other personal audio devices, and a growing public demand to be able to connect these devices to radios and in-car entertainment systems, Ofcom announced in July 2006 plans to legalise the use of certain low-power FM transmitters.

Ofcom led negotiations in Europe to develop a common set of technical standards for these devices to limit the potential for interference to other radio equipment. Following a public consultation, Ofcom introduced the Wireless Telegraphy (Exemption) (Amendment) Regulations 2006 on 8 December which legalised the use of certain low-power FM transmitters.

The Regulations also deregulated the use of Citizens' Band services, allowing short-range transmitters – currently used by around 20,000 people – to be used without the need for an Ofcom licence.

Spectrum trading

Spectrum trading allows the transfer of rights to use the spectrum, granted by a Wireless Telegraphy Act licence, from one organisation to another. Trading is one way to ensure the optimal use of the spectrum.

Spectrum trading was introduced at the end of 2004. Approximately 900 licences are currently tradeable, of which approximately 40 have UK-wide coverage and/or comprise significant quantities of spectrum. Thirty-two applications for trades have been made to Ofcom since 2005; 24 trades have been completed, seven applications have been withdrawn and one trade is pending.

During 2006/7 Ofcom authorised 15 spectrum trades. In addition, Ofcom increased the number of licences that can be traded: the licences granted from the three completed spectrum auctions are tradeable and in January 2007 Ofcom announced that it would be increasing the number of existing licences that can be traded in future from around 900 to nearly 35,000. Eleven of the 40 larger licences have now changed hands through trading.

Spectrum enforcement

Illegal broadcasting

Illegal broadcasting, or so-called pirate radio, causes serious interference to the radio spectrum – to the communications systems used by safety-of-life services such as air traffic control and the fire brigade, and to legitimate radio broadcasters such as commercial, community and BBC radio.

Ofcom employs a field force to investigate and take off-air illegal broadcasters. Ofcom takes enforcement action by raiding the studios of the illegal broadcasters and removing the transmitters used for this criminal activity.

In 2006/7, Ofcom undertook 707 separate enforcement operations against illegal broadcasters; this included 48 raids on studios used by illegal broadcasters and the seizure of 661 illegal radio transmitters (see Tables 1 and 2 below). During the year Ofcom secured 61 successful convictions.

In addition, in April 2007 Ofcom published detailed research into illegal broadcasting, which examined levels of listening and measured consumer awareness of interference to safety-of-life services and licensed broadcasters caused by illegal broadcasting. The research informed further work Ofcom conducted later in the year into ways of tackling illegal broadcasting.

Illegal equipment

Ofcom is responsible for taking action against the sale and manufacture of equipment that is not compliant with the European Radio and Telecommunications Terminal Equipment Regulations, the Electromagnetic Compatibility Regulations and the Wireless Telegraphy Act 2006. Non-compliant equipment can cause interference to legitimate radio users.

In 2006/7, Ofcom undertook 63 separate enforcement operations, which led to the removal of 51,000 illegal items from the marketplace. Illegal items seized included mobile phone jamming devices, bugging equipment and low-power, short-range transmitters.

For key performance indicators on spectrum operations, see page 66 of Section C.

Table 1 Illegal broadcasting transmitters seized 2006/7

April 06:	60
May 06:	43
June 06:	40
July 06:	72
August 06:	57
September 06:	46
October 06:	34
November 06:	63
December 06:	54
January 07:	100
February 07:	38
March 07:	54
Total:	**661**

Table 2 Raids on illegal broadcasting studios 2006/7

Name of illegal broadcaster	Location	Date of raid
Flashback	London	April 06
On Top	London	April 06
Lightning	London	April 06
People's FM	Leeds	April 06
Sweet FM	Hull	May 06
Rude Awakening	London	May 06
Podgy	London	June 06
Select	London	June 06
Ice Cold	London	July 06
Fresh FM	Leeds	July 06
Underground	Wolverhampton	July 06
Metrolove	London	August 06
Streetz	Birmingham	August 06
Vibe FM	Barrow	August 06
On Top	London	September 06
Surprise	London	September 06
Twilight	Hull	September 06
Renegade	Coventry	September 06
Shine	London	October 06
Extreme	London	October 06
Ice Cold	London	October 06
City Limits	Birmingham	October 06
Streetz	Birmingham	October 06
Streetz	Birmingham	October 06
Asian Air	Birmingham	October 06
Club FM	Glasgow	October 06
Laser Hot Hits	London	November 06
Sweet	London	November 06
Kasapa	London	November 06
Asian Air	Birmingham	November 06
Addictive	Birmingham	November 06
Frontline	Wolverhampton	November 06
Unknown	Oldham	November 06
Rhythm	London	December 06
Bizim	London	December 06
Havit	London	December 06
Hot FM	Birmingham	December 06
Real FM	Birmingham	December 06
Live FM	Norwich	December 06
Powerjam	Manchester	December 06
New Bash	Melksham, Wiltshire	February 07
Underground	Wolverhampton	February 07
Smooth	Willenhall, W Mids	February 07
Hot FM	Birmingham	February 07
Powerjam FM	London	February 07
NRG	London	March 07
Bizim	London	March 07
Lightning	London	March 07

Networks

In September 2005, following its Strategic Review of Telecommunications, Ofcom accepted Undertakings from BT Group plc. The Review set out a new regulatory approach for fixed-line telecommunications to enable genuine competition at the deepest levels of infrastructure for the benefit of both consumers and the communications sector as a whole.

Securing competition in fixed-line telecoms

Implementing the Undertakings

The Undertakings were designed to deliver real equality of access to all providers and required BT Group plc to set up a new and operationally separate business responsible for BT's local access and backhaul telecoms network. BT launched this business – named Openreach – in January 2006.

In 2006/7 BT continued to implement the Undertakings, monitored by Ofcom with the publication of quarterly progress reports. There are indications of increasing infrastructure-based competition in broadband and fixed-voice markets, resulting in greater choice and improved pricing for consumers.

For products provided over BT's copper network – primarily used for the residential and small business markets – wholesale take-up continued to grow. When the Undertakings were accepted by Ofcom in September 2005, Local Loop Unbundling (LLU) take-up stood at 123,000. By March 2007 this had grown to two million. Over the same period, the proportion of properties connected to an exchange with LLU equipment installed had expanded from 40 per cent to 70 per cent.

Removing retail price controls

Some 22 years after retail price controls were imposed to limit increases in the price of line rental and calls for BT customers, Ofcom announced in July 2006 that they would be removed. This significant deregulation followed both the conclusion of Ofcom's Strategic Review of Telecommunications and the specific public consultation, launched in March 2006, on removing retail price controls.

Ofcom stated that this deregulation was enabled by, and reflected, the rapid growth of competition and continued reductions in the cost of phone services to customers. More than 10.7m UK households and small businesses now used a telecoms provider other than BT – among them, more than 4.6m cable customers – enjoying some of the cheapest phone costs in the world.

The removal of price controls was announced in a public information campaign, ("It's your call"), which was managed by Ofcom and paid for by BT together with a contribution from Ofcom. The campaign, which comprised press, online and outdoor advertising, sought to make customers aware of the change and to encourage them to understand the choices open to them in a competitive market. Despite the deregulation, BT gave a number of assurances to offer additional protection to customers on low incomes, and vulnerable groups. The company agreed to limit increases on its basic line rental product, which for many represents the overwhelming majority of their bill.

Next Generation Networks

The introduction of Next Generation Networks (NGNs) will be one of the most significant changes to fixed-line telecoms networks since competition was introduced two decades ago. Core NGNs make use of digital technology to connect calls and other network traffic more efficiently than traditional telephone networks and NGNs have the potential to deliver significant benefits to consumers, with the prospect of new services delivered at a lower cost.

One of Ofcom's priorities is to create the conditions for all providers – including BT which is currently developing an NGN – to invest in NGNs but to also ensure that investment does not distort competition. To encourage progress Ofcom established a new industry body, NGN UK, in March 2006. In the 12 months since it was formed under the Executive Chairmanship of Peter Black, NGN UK has increased its membership and has made progress in agreeing the technical arrangements for NGNs.

Another aspect of future networks is Next Generation Access (NGA), a technology upgrade between homes and offices and the local telephone exchange. Communications providers could use a number of technologies to build an NGA network, including fibre, cable, wireless or upgrades to the existing copper-based networks.

In November 2006 Ofcom published a discussion document examining a series of questions in relation to future NGA networks, which was the opening stage of Ofcom's work to develop a clear view on the regulatory approach for NGA in the UK.

Telecoms and the consumer interest

Switching broadband providers

Broadband is one of the fastest-growing consumer technologies of recent years. Ofcom's research found that by the end of 2006 half of UK adults lived in households with a broadband connection. As the market grows, providers are increasingly seeking to attract competitors' existing broadband customers. In turn, customers depend on a reliable and seamless switching process to exercise choice and benefit from the competition.

The increasing momentum of broadband uptake, and the rising number of providers seeking to attract existing customers from competitor companies, led Ofcom to review the effectiveness of industry-wide processes to switch between those providers.

In August, Ofcom published a consultation on proposals to make it easier for customers to transfer between providers. Ofcom found that while in the majority of cases the switching processes were effective, when problems arose they were often serious and caused disruption to customers. In particular, Ofcom heard complaints from consumers who had found it difficult to obtain a Migration Authorisation Code (MAC), without which it was very difficult to move providers and also posed the risk of being without a broadband service while the transfer went through.

Ofcom announced new rules in December 2006 that made it mandatory, from 14 February 2007, for broadband providers to supply consumers with a MAC, and to do so free of charge. This includes wholesale providers who may in the past have withheld MACs in the event of a dispute with retail providers; the new rule requires them to issue a MAC regardless of any dispute.

A more robust MAC process would also help alleviate another problem known as 'tag on the line'. This refers to instances where customers wish to sign up to a new broadband service – for example, when moving into a new home – only to discover that a pre-existing broadband connection is already registered to that line in the name of the previous resident. The new rules required providers to make sure that tags and other operational issues do not hinder customers' ability to switch.

Consumer information about VoIP services

The reporting year saw the launch of a range of Voice over IP (VoIP) services by a number of different providers. The appeal of VoIP lies in cheaper calls – especially calls from one VoIP service to another – as well as new services such as call handling and unified messaging.

Following a public consultation, Ofcom announced in March 2007 a new regulatory code for VoIP service providers, designed to ensure that consumers have access to important information about the capabilities of their service. All providers would be required to comply with the code by June 2007, and make clear:

- if the service includes access to emergency services;
- the extent to which the service depends on the user's home power supply;
- whether directory assistance, directory listings, access to the operator or call itemisation are available; and
- whether consumers will be able to keep their telephone number if they later choose to switch providers.

Challenging mis-selling in fixed-line telecoms

The term 'mis-selling' refers to inappropriate sales and marketing activities by a provider of a service. These activities include 'slamming', where a customer is moved from one provider to another without their consent or knowledge.

In May 2005, Ofcom introduced new regulations to combat mis-selling. General Condition 14.5 requires providers of fixed-line telephony to establish, and then comply with, a code of practice governing their sales and marketing activities. The rules were due to expire in May 2007, and in February 2007 Ofcom published proposals to extend the regulations past that point.

Ofcom also proposed to extend the reach of the General Condition to include providers of services facilitated by Local Loop Unbundling (LLU). Although historically the number of complaints relating to LLU has been low, Ofcom believed that the potential for consumer harm could increase with the rising trend of providers migrating their customers to LLU. Ofcom sought views on its proposals by April 2007.

In May 2007, after the reporting period, Ofcom announced that rules protecting consumers from the mis-selling of fixed-line voice call services covered providers that offer voice and broadband services using full LLU technology.

Price and service comparison

Ofcom's research has shown that consumers are more likely to shop around if they have access to quality-assured price and service comparisons. In 2006/7, Ofcom launched two important schemes designed to bring about better comparison information for the consumer.

In July 2006, Ofcom announced the launch of TopComm, a scheme designed to provide customers with a guide to the quality of service levels offered by fixed-line telecoms providers in the UK. Available at www.topcomm.org.uk, all fixed-line providers with at least £4m net revenues and 100 million minutes of voice calls handled to end-users must participate in the scheme.

In December 2006, Ofcom announced a new price comparison accreditation scheme. The scheme is designed to help consumers choose between providers of fixed, mobile and international telephone services, as well as digital television and internet services.

Numbering

Numbering strategy

Telephone numbers underpin all telecoms services and play a key role in how UK households and businesses access and pay for services. Following a consultation early in 2006, and feedback from more than 200 industry and consumer respondents, Ofcom set out in July 2006 its approach to telephone numbering in the UK.

Ofcom announced four key priorities:

- **A new UK-wide 03 number range**, which was introduced early in 2007. Calls to 03 numbers will cost no more than geographic numbers, and will be included as part of any inclusive call minutes or discount schemes for geographic calls. The new numbers will enable organisations to offer a single point of contact without making additional charges for the service.
- **Avoiding changes to 01 and 02 geographic numbers**, mainly by improving the efficiency with which numbers are allocated. In the future, Ofcom would assess five years in advance where numbers would be most in demand and, in those areas, allocate blocks of 1,000 numbers (instead of 10,000).
- **Developing clearer and simpler structures for 08 numbers**, with the first three digits of a number sending a signal about the cost and nature of the call. For example, for 08 numbers the structure might be:
  - 080: Freephone (including current 0800 and 0808 numbers)
  - 084: up to a lower rate (5p per minute on BT lines)
  - 087: up to a higher rate (10p per minute from BT lines)
- **Protecting consumers from phone scams**, by introducing a consumer protection test to providers applying for numbers. Ofcom also announced action to prevent scams on 070 personal numbers, which are often confused with mobile numbers. It announced an end to personal numbering in the 070 range by mid-2009 and the introduction in 2007 of mandatory pre-call announcements of call charges for personal numbering calls above a certain price.

For key performance indicators in numbering, see page 60 of Section C.

0870 numbers

In April 2006, Ofcom announced the last of its proposals relating to its review of all chargeable 08 number ranges (known as Number Translation Services, or NTS). Both mobile and fixed-line providers (including payphones) would be required to charge the same, or less, for 0870 calls as they do for national-rate calls to geographic numbers (starting 01 and 02). Should they wish to charge more, they would have to make a price pre-announcement (free to the caller).

Mobile telecoms

Number porting

A significant barrier to switching supplier can be the time – and possible complexity – it takes to move successfully. In the case of mobile phones, this can be exacerbated by the desire of many consumers to take their existing phone number with them to a new supplier.

In November 2006, Ofcom proposed that the 'port' time of transferring a number from one network to another following a switch should be reduced from the existing five working days.

Planned improvements were also announced for calls to ported numbers, which are currently routed via the customer's original network. Ofcom set out proposals for a common database of numbers that would be used by all fixed and mobile providers to route calls directly to each customer's current subscribed network.

Wholesale mobile call termination rates

The wholesale mobile call termination rate is the fee that mobile network operators (MNOs) charge to connect calls that are made from another fixed or mobile network. The regulations are designed to protect consumers from excessive prices, and Ofcom launched a consultation in September 2006 on proposed new controls on wholesale mobile call termination charges.

Having considered the responses to the consultation, Ofcom announced a set of new charge controls in March 2007 that limited the amount that MNOs could charge to other telephone companies for call termination. Taken as a whole, Ofcom expected that the new controls would bring about an average annual reduction in wholesale charges of £400m-£500m over four years, and that these savings would be passed through to retail customers.

Ofcom also concluded that each of the five MNOs continued to have significant market power for termination of voice calls on their networks; that controls were therefore still needed, and would now run for four years from 1 April 2007.

3G roll-out

The 3G licensees – O2, Vodafone, H3G, T-Mobile and Orange – each have an obligation to cover 80 per cent of the UK population by 31 December 2007.

Ofcom expects all licensees to meet these requirements. However, it is important that the companies understand the technical basis for any measurement of compliance with the roll-out obligation. In July 2006, Ofcom consulted on the proposed methodology for how 3G roll-out would be measured. After considering responses to the consultation, in February 2007 Ofcom concluded that it would:

- assess coverage on the basis of data on base stations supplied by the licensees, and population data from the 2001 Census;
- perform an engineering analysis of the signal strength receivable at outdoor locations; and
- take sample measurements around the UK to verify the results.

For details of Ofcom's spectrum release programme, see page 19.

For details of Ofcom's work on international roaming, see page 41.

Content and Broadcasting

The switch to all-digital television will begin in October 2007 with the flagship switchover project in Whitehaven, Cumbria, and will conclude in 2012 with the whole of the UK switched to digital. The UK is already one of the most advanced countries for digital television take-up. By March 2007 some 77.2 per cent of television households were viewing digital television across a variety of platforms: digital satellite, digital cable, digital terrestrial and broadband.

Digital switchover

Ofcom is actively engaged in the digital switchover programme, working closely with the Government and with Digital UK, the organisation responsible for delivering digital switchover. In addition to supporting Digital UK, Ofcom's work in this area includes ensuring a suitable regulatory framework for digital switchover, spectrum planning and leading international negotiations on spectrum use.

As part of the preparations for switchover, Ofcom confirmed in December 2006 the details of licence conditions for companies providing digital terrestrial television (DTT). This included details on coverage, where Ofcom confirmed its view that local communities with access to current analogue television transmissions should continue to have access to DTT services at switchover. Ofcom licenses five of the six television multiplexes under the Broadcasting Act (the other being operated by the BBC under its Royal Charter). Those carrying public service television channels will be required to achieve coverage of 98.5 per cent of the UK population.

Ofcom secured an important international agreement on switchover at the Regional Radiocommunication Conference. For details see the International section, page 41.

In 2006/7 Ofcom also published its Digital Dividend Review. This set out proposals for awarding the spectrum that will be released for new uses through digital television switchover. For details see page 19.

Public service television broadcasting

Market impact assessment of proposed BBC services

The new BBC Royal Charter Agreement which came into effect on 1 January 2007 created a new Public Value Test (PVT) to assess whether the BBC's proposals to launch new services – or to amend existing ones – would be in the wider public interest.

Any decision to authorise proposed services lies with the BBC Trust, which must first take into account two separate research projects: a Public Value Assessment (PVA) of the broader value that a proposed service might bring to UK citizens and consumers, conducted by the Trust; and a Market Impact Assessment (MIA), conducted by Ofcom.

The MIA is to assess the likely impact of proposed services on markets in which they would be provided, as well as on related markets. In particular, Ofcom is required to examine the extent to which proposals might deter innovation and investment being made by alternative providers in the commercial sector, to the ultimate reduction of choice for listeners and viewers, and to the detriment of public interest as a whole.

Ofcom began work on its first MIA in September 2006, examining the BBC's proposal to develop new on-demand services, which includes catch-up TV, simulcast TV and audio downloads.

Ofcom found that the new services could account for almost four billion viewer- and listener-hours by 2011, with a significant proportion – over half, in the case of simulcast and audio download services – representing additional activity above current levels. They are therefore likely to stimulate considerable interest in new media services to the benefit of all UK consumers and businesses, and significant potential value to licence fee payers.

However, the MIA raised a number of concerns with the proposals, including their possible impact on investment in certain commercial markets, including on-demand services and the DVD market. In addition, Ofcom expressed concern about the potential impact of the proposed audio download service on sales of classical music and audiobooks.

Ofcom passed the MIA to the BBC Trust, to be taken into account alongside the PVA. In April 2007 the Trust approved the proposed on-demand services, subject to certain conditions and modifications. The modifications included restrictions on the amount of series stacking permitted in the catch-up television services and the exclusion of audiobooks and classical music from the audio download service, in line with Ofcom's recommendations.

Public Service Publisher

One of Ofcom's responsibilities under the Communications Act 2003 is to ensure a widespread availability of a range of high-quality television and radio services, calculated to appeal to a variety of tastes and interests.

In February 2005, Ofcom's review of public service broadcasting (PSB) found that the existing terrestrial analogue model of commercially-funded PSB would not survive the transition to digital and, indeed, may erode rapidly prior to 2012.

As part of its response, Ofcom proposed a new Public Service Publisher (PSP) which would commission new media content focused on meeting public purposes. It would use new distribution platforms such as broadband, mobile and digital broadcasting to deliver distinctive, UK-originated public service content. The PSP would be a networked, participative new media organisation in contrast to the traditional broadcasting focus of the existing PSB model.

In July 2006, Ofcom commissioned a PSP Creative Forum which held a number of workshops and, in January 2007, it published further views on the PSP alongside the work of the Creative Forum. It suggested that PSP could offer a rich new media experience for users that could:

- allow audiences to re-use content as well as merely view it;
- place user participation at the heart of much of the content;

- include high-quality audio and video content developed for new media distribution and use, rather than traditional broadcasting; and
- drive community activity, including location-sensitive content and the ability to collaborate to create new material.

Ofcom said that there were valid arguments both for the creation of a new organisation and for the PSP to be linked to an existing media provider. It could also be based outside London to reflect the diversity of viewpoints around the UK and to encourage a wider spread of investment in digital media.

With new media production and distribution costs currently lower than that of conventional television, Ofcom believes that a significant impact could be made with an initial PSP budget of £50m-£100m per annum. Ofcom sought views on the precise amount, and source, of PSP funding in a consultation which closed in March 2007.

Television production

Under the Communications Act 2003, Ofcom is required to ensure a diversity of programme supply and a broad representation of the communities and cultures of the UK. The UK has some of the highest levels of 'home-grown' television in the world.

In 2006/7 Ofcom concluded its Television Production Sector Review, which followed a public consultation in the previous reporting period. Ofcom decided that there was no current requirement for a major revision of regulatory intervention in the television production sector. However, Ofcom committed to consult on modifications to broadcasters' existing Codes of Practice, to accommodate agreements reached during summer 2006 on new media rights between PACT, the independent producers' trade association, and the public service broadcasters.

Channel 4 financial review

Ofcom's Public Service Broadcasting Review concluded that a not-for-profit, commercially-funded Channel 4 should remain an integral part of PSB. It also found that the transition to digital television would create a number of challenges for the broadcaster.

In 2006/7 Ofcom commissioned an independent financial review of Channel 4 which was published shortly after the reporting period in April 2007. The report assessed the resilience of Channel 4's business model and considered the timing of any funding challenges that the Group may face in fulfilling its public service remit. Alongside the report Ofcom published four options as possible responses to the analysis:

1. ruling out any further public support for Channel 4;
2. monitoring Channel 4's financial performance and remit delivery with a view to considering the case for future intervention at a later date;
3. considering 'safety net' measures to mitigate risks to Channel 4 in the short and medium term and reviewing potential options for more significant intervention at a later date; and
4. moving immediately to assess the possibility of major intervention.

Ofcom will take this work forward in 2007/8.

Children's programming

As part of its planned schedule of work on the future of PSB in the digital age, Ofcom announced a review of children's programming in February 2007. The review would begin with a research project focusing on:

- the current state of children's television and other children's media in the UK;
- the role of public service broadcasting in providing content to children;
- the prospects for a wide range of high quality and original content; and

• relevant international perspectives or examples.

Ofcom intended to publish the findings of this research in summer 2007.

Funding commercial television and radio

Advertising food and drink products to children

The growth in childhood obesity is a significant public health concern. In December 2003 the Secretary of State for Culture, Media and Sport asked Ofcom to consider proposals to strengthen the rules governing food and drink advertising to children.

Following comprehensive analysis of the available scientific and audience research, and having concluded that targeted restrictions were warranted as part of a wider range of policy measures, Ofcom published a consultation in March 2006 seeking views on the most appropriate measures.

Having considered the more than 1,000 responses, which covered a wide range of perspectives, Ofcom announced new restrictions on the television advertising of food and drink product to children in November 2006. This balanced Ofcom's regulatory objectives of reducing significantly the exposure of children under 16 to television advertising of food and drink products that are high in fat, salt and sugar (HFSS) with its statutory duty to secure high-quality television programmes of wide appeal.

Following a further brief consultation on extending some restrictions to programmes aimed at older children, Ofcom published its final set of rules in February 2007:

- From 1 April 2007, HFSS advertisements would not be permitted in or around programmes made for children (including pre-school children), or in or around programmes that are likely to be of particular appeal to children aged 4-9.
- From 1 January 2008, HFSS advertisements would not be permitted in or around programmes made for children (including pre-school children), or in or around programmes that are likely to be of particular appeal to children aged 4-15.
- The new content rules came into effect immediately (February 2007).
- Existing advertising campaigns, or those in the final stages of creative execution, could be broadcast until the end of June 2007. However, from 1 July 2007 all advertising campaigns must comply with the new content rules.

In determining which foods should be classed as being HFSS, Ofcom decided to make use of the Nutrient Profiling Scheme developed by the Food Standards Agency specifically for that purpose.

Premium rate telecoms services in television

Following concern expressed by viewers and a range of other stakeholders, Ofcom announced in March 2007 an inquiry into the use of premium rate services (PRS) in television programmes. These concerns focused on apparent systematic compliance failures by a number of broadcasters, whose actions appeared to contravene existing consumer protection rules.

Premium rate calls can cost up to £1.50 a minute from the BT network, and typical services include television voting lines, competitions and interactive television games. Ofcom announced that the inquiry would examine:

- consumer protection issues and the attitudes of audiences to the use of PRS in television programmes;
- the benefits and risks to broadcasters in the use of PRS in programmes;
- the respective compliance and editorial responsibilities of broadcasters, producers and telecoms network operators and others involved in those programmes; and
- the effectiveness of broadcasters' and telecoms operators' internal compliance procedures, guidelines and arrangements to ensure compliance with Ofcom and ICSTIS codes.

Ofcom announced that the inquiry would be led by Richard Ayre, a non-executive member of the Ofcom Content Board, with extensive input from the premium rate services regulator ICSTIS which was already investigating a number of individual cases. The inquiry expected to report its findings after the reporting period, in early summer 2007.

Separately, Ofcom opened over 20 separate cases of investigations into call-in television quizzes.

For details of Ofcom's broadcast complaint handling see page 47.

Participation television

The heavy reliance of many television programmes and channels on participation, and whether rules governing them should be tightened, was the focus of a paper published by Ofcom in December 2006. These services – such as quiz, psychic and adult chat services – rely heavily on interaction with viewers, usually by means of premium rate telephone lines.

The paper was published in the context of:

- the increasingly blurred boundaries between advertising and programming, as broadcasters seek new revenue streams;
- an ongoing review of television quiz shows by ICSTIS, to assess whether pricing and the element of chance are sufficiently transparent to viewers; and
- a Gambling Commission discussion document which seeks to ensure that television services operate within the boundaries of gambling legislation.

Ofcom's paper set out the areas that it intends to address in a full public consultation in 2007, after the end of this reporting period. This will focus on the most appropriate regulatory measures for channels that have a distinctive mix of editorial and promotional content.

Relaxing rules around funding

In 2006/7 Ofcom consulted on three separate proposals which would have a bearing on the restrictions placed upon broadcasters in generating commercial revenue.

Product placement: The inclusion of, or reference to, a product or service within a programme in return for payment is currently prohibited under the European Commission's Television Without Frontiers Directive. However, in a draft revision to the Directive, the Commission proposed to relax these rules, and Ofcom consulted on the possible impact of a limited and controlled introduction of product placement in the UK.

In general, broadcasters were in favour of a controlled introduction, while several consumer and viewer organisations opposed it. Ofcom made the findings available to help inform discussions in Europe, and to make sure that the opinions of UK viewers and advertisers were represented effectively.

Sponsorship of television and radio stations. With sponsorship of programmes now a familiar part of broadcasting, Ofcom announced that it would amend its Broadcasting Code to allow the sponsorship of television and radio stations, as opposed to simply individual programmes, with certain restrictions in place on and around news and children's programmes.

Appeals for donations. The Ofcom Broadcasting Code prevents commercial television broadcasters from making direct appeals to the viewer for donations to help make their programmes. Following a consultation, Ofcom concluded that television should be brought into line with radio, but with restrictions to ensure transparency and accountability, and the protection of vulnerable people who may be persuaded to make donations they cannot afford.

Technical Platform Services

Since 1997, BSkyB has been subject to regulation regarding the terms and charges it makes to those broadcasters and operators of interactive television who wish to make their content available on the BSkyB satellite platform.

Ofcom consulted on new proposals for revised guidelines in November 2005, with a further short consultation in April 2006. The new guidelines were published in September 2006.

Revised terms for commercial radio licences

In July 2006, Ofcom announced that Classic FM, TalkSPORT and Virgin – the Independent National Radio operators – had applied for an extension to their licences.

Following a review, Ofcom determined revised terms for the extended licence period, with a reduction in the amounts payable. This reflected the reduced value of analogue licences in an increasingly digital radio environment.

Competition and the television market

The pay-television industry

Ofcom announced in March 2007 that it would investigate the pay-TV market. This followed a submission from BT, Setanta, Top Up TV and Virgin Media, requesting an investigation and that Ofcom should consider whether there were grounds for a market reference to the Competition Commission under the Enterprise Act 2002. Consumer groups, including the Ofcom Consumer Panel and the National Consumer Council, had also expressed concern over one aspect of the pay-TV market: the loss of BSkyB channels on Virgin Media's pay-TV platform.

Pay-TV includes subscription and video-on-demand television services on all platforms: cable, digital terrestrial television (DTT), satellite and television over DSL. Following its assessment, Ofcom would decide whether a market reference was appropriate, and whether any concerns would be better addressed using sectoral powers or the Competition Act 1998.

Separately, BSkyB announced in February 2007 that it proposed to launch a new pay-television service on the DTT platform. Ofcom announced that, following a series of requests for clarity on the regulatory process regarding the proposed launch, it would consult on any such proposal once it had received the necessary applications.

BSkyB's acquisition of a stake in ITV plc

On 21 November 2006, BSkyB acquired a 17.9 per cent stake in ITV plc, and Ofcom invited both organisations to comment on whether this represented a change of control of one or more licences held by ITV plc. If a change of this kind had taken place, Ofcom would be required to review the effects – or likely effects – on ITV's licensed services: for example, original productions, news and current affairs programmes and regional programming.

Separately, on 26 February 2007, the Secretary of State for Trade and Industry issued an intervention notice to Ofcom and the Office of Fair Trading to consider whether BSkyB's acquisition raised public interest issues. Ofcom implemented an investigation, and submitted its findings to the Secretary of State on 27 April 2007. Ofcom's advice was that there were public interest issues in relation to sufficient plurality of news provision for both cross-media and television news in the UK. In May 2007 the Secretary of State referred BSkyB's acquisition to the Competition Commission.

Pay-television channels on Freeview

In April 2006, Ofcom decided that, following consultation, the existing rules that restrict pay-television channels from being broadcast on digital terrestrial television (DTT) could be deregulated.

Three of the six multiplex licences (multiplexes B, C and D) contain a requirement that all the channels they carried had to be free-to-air. The licences were granted by Ofcom's predecessor the ITC in 2002, when factors such as the promotion and development of DTT were taken into account. Ofcom said that this restriction was now unnecessary, and that finding the right balance between pay-television and free-to-air channels could be better left to the market.

Digital radio expansion

Total radio listening in the UK reached a record high of 45 million listeners in the final quarter of 2006, with 90 per cent of the population tuning-in every week. Digital radio is helping to increase the popularity of radio overall, with 16 per cent of households owning a DAB radio, which offers a greater choice of stations.

In July 2006 Ofcom launched a programme to expand significantly local and national DAB radio services over the next three years. Following a period of consultation and frequency allocation planning, Ofcom announced that a second national radio multiplex licence would be advertised by the end of 2006, together with the first of 12 local DAB multiplex licences. This was followed in December 2006 with a formal invitation to apply.

At the end of March 2007 Ofcom announced that it had received two applications for the second national DAB licence: 4 Digital Group Limited (whose shareholders include Channel 4 Radio Limited; Sky News Radio Limited; Emap Digital Radio Limited; UTV Radio GB Limited; Carphone Warehouse Group plc; and UBC Media Group plc) and National Grid Wireless. Ofcom sought views on the applications, with a closing date for submissions of 15 June 2007.

The future of radio licensing

Challenges from technologies such as podcasting, stalling advertising growth and pressure on local stations from digital radio were some of the issues considered in an Ofcom discussion document, The Future of Radio, published in November 2006. It represented the first stage in Ofcom's work to address a number of challenges facing the radio industry, and identified specific areas that may need consideration. These included:

- whether regulatory obligations such as a station's format are still required to ensure a broad range of services for listeners;
- the best way to ensure the greatest flexibility in spectrum use;
- the potential to replace existing AM licences with DRM (Digital Radio Mondiale) services;
- whether steps were needed to ensure local radio services continue on local DAB multiplexes, as analogue declines; and
- whether any changes to ownership rules were needed.

In April 2007 Ofcom published the second phase of the review – a consultation on a possible framework for future regulation and licensing of the radio centre. The consultation focused on three main areas:

1. **Regulation of commercial radio.** Ofcom proposed to align the regulation of analogue radio with that of DAB radio by simplifying the analogue Formats, which specify the type of programming and the amount of local material a station must produce.
2. **Regulation of community radio.** Ofcom sought views on how the regulation could be amended to reduce the level of regulation on these small stations.
3. **Future use of analogue spectrum.** Ofcom sought views on changes which could free-up spectrum currently used by analogue radio services, at an appropriate time in the future.

Commercial and community radio licensing

Community radio

In 2006/7 Ofcom continued its programme of licensing community radio stations, which cover small geographical areas on a not-for-profit basis and which are focused on delivering specific social benefits.

By the end of March 2007 over 60 community radio stations were broadcasting, reflecting the variety of cultures, demographics and tastes in the UK. For example, there were stations catering for elderly people, children, young people, the Muslim community, the black community, the Asian community, Christians, Irish Gaelic speakers, and a variety of musical tastes.

During the first round of licensing, Ofcom awarded 107 licences from a total of 194 applications. The second round, announced in July 2006, attracted letters of intent from 184 organisations, for which Ofcom announced that:

- applications would be invited on a region-by-region basis, from August 2006;
- there would be limited scope for licences in some urban areas of the UK due to spectrum scarcity; and
- applicants within each region would be given 12 weeks to apply for a licence.

The holders of community radio licences can seek financial support from Ofcom's Community Radio Fund. The Fund Panel, chaired by Kevin Carey, conducted two rounds of applications for funding in 2006/7 and awarded grants to 40 community radio stations totalling £829,975.

In 2006/7 Ofcom awarded 29 community radio licences (see Table 3).

Commercial radio licensing

In 2006/7 Ofcom continued with its programme of FM commercial radio licensing. The licence awards were made by the Radio Licensing Committee, a sub-committee of the main Ofcom board. In the year to 31 March 2007 Ofcom awarded 15 radio licences (see Table 3).

Restricted Service Licences

Restricted Service Licences (RSLs) are issued under the Broadcasting Act 1990 on AM and FM to provide opportunities for a wide range of people to broadcast for a variety of reasons. For example, a short-term licence may celebrate a local event, or broadcast for a religious period (such as Ramadan), or be run for an educational project. A long-term licence is for a radio service within an establishment, for example for people in hospital or forces personnel on an army base. In April 2006, Ofcom consulted on proposals to ease the regulatory burden of RSLs and in January Ofcom announced that:

- commercial organisations, such as shopping centres and theme parks, could apply for long-term RSLs;
- some restrictions on short-term RSLs, where a commercial or community radio licence has been granted or where it is being advertised, would be removed; and
- it would issue long-term RSLs for a period of less than five years on request.

Table 3

Commercial FM Radio Licence Awards 2006/7	Community Radio Licence Awards 2006/7
Rotherham	Cardiff
Newry	Cambridge
Andover	Aldershot
Kingston-upon-Hull	Chesterfield
Bristol	Stockton-on-Tees
Exeter	Nelson
Oxford and South Oxfordshire	Wirral
Liverpool	Liverpool
Preston	Halton
Perth	Mid Cheshire
North East England	Lancaster
Southend-on-Sea	Chelmsford
Herefordshire and Monmouthshire	Burnham on Crouch
Manchester	Sheerness
Aberdeen	Stroud
	Wiveliscombe
	Brynmawr, Blaenau Gwent
	Tircoed Forest Village, Swansea
	Dartington/Totnes
	Midsomer Norton, Somerset
	Falmouth & Penryn
	St Austell Bay
	St Paul's & Easton, Bristol
	Glastonbury & Street
	Exeter
	Swindon
	Poole
	Poole
	Barry, Vale of Glamorgan

International

Ofcom's activities and those of the companies it regulates are increasingly influenced by international developments. Ofcom represents the UK on radio spectrum matters in key international groups and participates in international forums on telecommunications and broadcasting matters. Ofcom also works closely with the UK Government to develop policy positions on proposals for new EU legislation.

In 2006/7 Ofcom contributed to major international reviews on:

- the Audio-Visual Media Services Directive (AVMS);
- the development of the European Regulators Group;
- the review of the regulatory framework for electronic communications;
- the new regulations relating to international mobile phone roaming charges; and
- the Regional Radiocommunications Conference.

Audio-Visual Media Services Directive

During the year, Ofcom continued to work closely with the Government on the European Commission's proposed Audio-Visual Media Services Directive. This will replace the current Television Without Frontiers Directive, which sets EU-wide rules for cross-border broadcasting.

Ofcom focused on two principal areas:

- the proposed extension of regulatory scope; and
- the liberalisation of rules on broadcasting advertisements.

On scope, Ofcom argued for a limited extension of scope to only cover television-like on-demand services and stressed the importance of co-regulation in implementing any extension of regulatory scope.

Ofcom also said that it would be proportionate to remove some of the detailed restrictions on broadcasting advertisements, such as those that specify the period of time that must elapse before a programme can have a centre-advertising break. It also advised the UK Government on the potential implications of a relaxation of product placement rules on television.

In November 2006, the Council of Ministers agreed a General Approach – an informal agreement on key policy questions – in relation to the AVMS Directive. In December 2006, the European Parliament also agreed a First Reading Text of the Directive. Ofcom believes that, in both cases, the texts represent significant improvements on the Commission's original proposals in relation to scope and liberalisation of advertising rules.

Development of the ERG

The European Regulators Group (ERG) is a forum of national telecommunications regulators that has a role under the EU Regulatory Framework to advise the European Commission on the practical application of the Framework.

Ofcom's Senior Policy Partner, Kip Meek, was appointed chair of the ERG for 12 months in 2006 and began a review programme to examine areas where it could work together more efficiently and effectively. In October 2006, ERG members committed to new procedures and disciplines to strengthen their collective work; this included reviewing and updating priority areas for a common approach to remedies applied to players who have significant market power under the Framework, and a commitment to share best practice. Ofcom believes that these steps will significantly improve the quality and consistency of EU telecoms regulation. This will encourage more competitive markets in general and the development of the internal market for telecoms services in particular.

Review of the regulatory framework for electronic communications

In autumn 2006, the European Commission began a review of the EU communications regulatory framework, which underpins Ofcom's approach to economic regulation of telecommunications markets. Ofcom submitted detailed comments to the Commission jointly with the UK Department of Trade and Industry. These focused in particular on the need for:

- effective and independent regulators equipped with a full array of powers, including the kind of 'functional separation' remedy that was used in Ofcom's Strategic Review of Telecommunications; and
- liberalisation of the use of spectrum to allow new wireless services to be launched. Ofcom also supported a review of universal service obligations and the re-examination of consumer protection and enforcement powers.

International roaming

Following negotiations in European Council and Parliament, the Regulation governing provision of mobile international roaming services were due to come into force later in the year.

Ofcom supported the proposal's aim to bring down international roaming prices for consumers significantly and to make a step change in the transparency of roaming tariffs. It worked closely with the Government during the period of negotiations to improve the practicability and effectiveness of the measures.

The European Regulators Group (ERG) has agreed a co-ordinated approach to monitoring of market developments and enforcement of the measures. Ofcom is leading this work within ERG and is committed to full and effective implementation.

Regional Radiocommunication Conference

Ofcom led the UK delegation to the International Telecommunications Union's (ITU) Regional Radiocommunication Conference (RRC), held in Geneva in May 2006. The ITU is the international co-ordinating body for spectrum and telecoms standards.

The purpose of RRC was to produce a new international spectrum frequency plan for digital broadcasting including digital radio. In total, over 100 countries were involved from across Europe, Africa and the Middle East. Ofcom's principal objectives at RRC were to secure international agreement to the frequency assignments plan required for UK digital television switchover, as well as recognition that the spectrum identified for release following switchover – the 'digital dividend' – could be used for purposes other than traditional broadcasting. All EU members and many other non-EU countries agreed to this.

For Ofcom's proposals for the UK digital dividend, see page 19. For an update on Ofcom's work on digital switchover see page 31.

Investigations Programme

Ofcom has a number of roles and duties relating to identifying and responding to conduct which is unlawful or anti-competitive, and in resolving disputes. In responding to complaints or disputes filed by market participants or consumers Ofcom's investigations programme ensures that the organisation responds quickly and firmly to breaches of regulatory rules or relevant law, and is able to act effectively in resolving disputes.

Investigations and disputes

As a sectoral regulator under the Communications Act, Ofcom has responsibilities to enforce *ex ante* rules such as rules imposed on providers with significant market power, and rules imposed on all providers as general conditions. Ofcom also determines disputes between providers of electronic communications networks and services, and has responsibilities under the Broadcasting Act to enforce *ex ante* powers.

As a national competition authority, Ofcom is empowered to enforce competition law concurrently with the Office of Fair Trading, and acts as the competition enforcement agency for the communications sector. Ofcom's role under competition law includes:

- enforcing the Chapter I and Chapter II prohibitions of the Competition Act 1998;
- enforcing Articles 81 and 82 of the EC Treaty; and
- investigating markets and making references under the Enterprise Act 2002.

Ofcom also has a significant programme of enforcement action to protect consumers from unlawful or abusive conduct, and this activity was a source of renewed activity during the reporting period. Within the investigations programme, Ofcom considers individual consumer complaints under the Unfair Terms in Consumer Contracts Regulations 1999 and under Part 8 of the Enterprise Act 2002 for the communications sector.

Ofcom has continued to publish six-monthly reports, setting out in detail the work of the investigations programme.

Summary of investigations programme

In 2006/7 Ofcom received 213 complaints or dispute referrals. In addition, Ofcom identified 21 issues for possible investigation on its own initiative. In total, 183 of these cases were rejected or redirected (either within Ofcom or to another organisation) upon receipt. Of the remaining 51, Ofcom moved 45 into its enquiry phase (during which Ofcom decides whether to launch a full investigation into a complaint or to resolve a dispute) and six were moved directly to a full investigation. Of the 45 cases considered in enquiry phase, 14 resulted in full investigations being opened by the end of the reporting period, with two cases still in the enquiry phase.

Taking all requests received (including issues identified at Ofcom's own initiative), 20 cases (or 9 per cent) were found to warrant full investigation with a further two cases awaiting a decision.

Ofcom opened a further two investigations during the reporting period. These resulted from enquiries that had been opened before the reporting period began.

A total of 22 full investigations were opened during the reporting period of which 14 were closed by 31 March 2007. Ofcom closed a further 13 investigations that had been opened in the previous reporting period. For details of investigations key performance indicators, see page 70. Significant milestones include:

- Ofcom fined a company the statutory maximum (10 per cent of turnover) for failure to comply with rules to protect consumers from slamming and mis-selling.
- Ofcom imposed penalties totalling £50,000 on one company for failure to comply with statutory information requests.
- Ofcom secured a criminal conviction against a director of a company, in relation to the provision of false information.
- Ofcom imposed penalties on five companies totalling £162,500 for persistent misuse of electronic networks and services.

In addition to these cases, Ofcom issued a further six notifications of contravention to companies which Ofcom had reasonable grounds for suspecting were in breach of various General Conditions.

Research

Ofcom aims to produce best-in-class research into the communications sector to which stakeholders have regular access. The Communications Act 2003 also requires Ofcom to carry out research to measure citizens' and consumers' opinions on, and experiences with, electronic communications services, which gives Ofcom a sound evidence base on which it makes policy decisions.

Ofcom's annual research programme falls into three categories:

1. **the Communications Market series;**
2. **research supporting policy work; and**
3. **technical research and development.**

The Communications Market series

In 2006/7 Ofcom's Communications Market series comprised three main reports focusing on: the UK communications sector; the Nations and Regions of the UK; and the UK within an international context.

The reports provided a comprehensive picture of the telecoms, broadband and broadcasting sectors, including the latest available data on: industry size, structure and financing; availability, penetration and use of products and services; and consumer attitudes and behaviour.

Alongside the main reports Ofcom also published a number of special reports each focusing on a specific demographic as well as a number of Digital Progress Reports examining developments in the digital television and broadband markets.

Policy research

Throughout the year Ofcom carried out research to provide a robust evidence base for policy development. In 2006/7 this included the Consumer Experience, which evaluated the experience of UK consumers in telecoms, broadcasting and internet markets. The research informed a separate project on digital inclusion to examine issues associated with ensuring that citizens are able to benefit from new services, regardless of their geographical location or social or economic profile.

Technical research and development

Understanding the impact of technology developments on the communications industry is vital to Ofcom in shaping regulatory policy. Ofcom carries out research to stay informed about emerging new technologies and their potential impact on markets with a particular focus on enabling optimum use of the radio spectrum and for encouraging innovation and investment in wireless communications.

Research publications 2006/7

Markets & The Communications Market series

April 06 Communications Market: Nations & Regions

June 06 Telecommunications Market Data Tables Q4 2005

June 06 Communications Market: Digital Television Progress Report - 2006 Q1

July 06 Communications Market: Special Report - Consumer Engagement with Digital Communications Services

August 06 The Communications Market 2006

September 06 Communications Market: Special Report - SME Engagement with Digital Communications Services

October 06 Large Business Use of Telecoms Services: Research Report 2006

October 06 Communications Market: Digital Television Update - 2006 Q2

October 06 Telecommunications Market Data Tables Q1 2006

November 06 The International Communications Market 2006

December 06 Communications Market: Digital Television Update - 2006 Q3

January 07 The Communications Market: Special Report - Niche ISPs

January 07 Telecommunications Market Data Tables Q2 2006

March 07 Digital Television Update - 2006 Q4

March 07 The Public Service Broadcasting Annual Report 2006

March 07 Communications Market: Digital Progress Report - Broadband

Policy Research

April 06 Media Literacy Audit: Report on media literacy in the Nations and Regions

April 06 Mobile Services on Aircraft

April 06 Media Literacy Audit: Report on media literacy amongst older people

April 06 Media Literacy Audit: Report on media literacy of disabled people

April 06 Media Literacy Audit: Report on media literacy amongst adults from minority ethnic groups

May 06 Survey of BT's wholesale customers

May 06 Television Access Services: First Quarter Report for 2006

May 06 Media Literacy Audit: Report on media literacy amongst children

June 06 Online protection: A survey of consumer, industry and regulatory mechanisms and systems

June 06 Revenue at risk after impact of mitigation from Pre-9pm HFSS restriction

July 06 Digital PSB - Public Service Broadcasting post Digital Switchover

July 06 Futuresight report conducted for Ofcom Numbering Review

July 06 The Provision of Current Affairs

July 06 Business Radio Licensing and Channel Statistics Report for 2006

July 06 Digital switchover: an audit of viewers' priorities

Sep 06 Assessing Indirect Impacts of the EC Proposals for Video Regulation

September 06 Programme Information Research: An investigation of current attitudes and behaviours towards programme information

September 06 Regulating TV advertising of food and drink to children

September 06 Television Access Services: Second Quarter Report for 2006

October 06 Mobile Services on Aircraft - Summary of stakeholder views about the introduction of mobile services on aircraft

October 06 Radio Advertising Market Research

October 06 Evaluating the impact of the Telecoms Review

October 06 Regulating TV advertising of food and drink to children

November 06 Television Access Services: Third Quarter Report for 2006

November 06 The Consumer Experience - Research Report

November 06 Review of Media Ownership Rules

November 06 Consumer research supporting consultation on Review of General Condition 18 – Number portability

November 06 Feasibility of Additional Telephone Relay Services

December 06 Digital Dividend Review - A report of consumer research conducted for Ofcom by Holden Pearmain and ORC International

February 07 Predicted coverage of public service and commercial digital television multiplexes following switchover

February 07 BBC iPlayer Market Impact Assessment: Consumer Survey

March 07 Television Access Services: Fourth Quarter Report for 2006

Technical R&D

August 06 A Study for the Provision of Aggregation of Frequency to Provide Wider Bandwidth Services

November 06 Wireless Last Mile Final Report

November 06 Future Performance of Video Codecs

December 06 Study into the Introduction of Polite Protocol Controlled Spectrum

December 06 Automatic Spectrum Monitoring System Phase 2

December 06 The economic value of licence exempt spectrum

January 07 Future Options for Efficient Backhaul

February 07 Cognitive Radio

February 07 Decentralised Spectrum Access (DSA)

February 07 Higher Frequency bands for Licence-Exempt Applications

April 07 Autonomous Interference Monitoring System - Phase II & Measurements of LE Usage

Supporting stakeholders

Ofcom Central Operations

The Ofcom Central Operations function deals with questions and complaints from a broad range of viewers, listeners, customers of telecoms companies and users and licensees of wireless communications services. The function includes the Ofcom Contact Centre, Ofcom Licensing Centre and Ofcom Consumer Services.

During the period under review, Central Operations answered more than 148,300 telephone enquiries and received more than 105,900 completed internet forms, emails, letters and faxes. Of these, around:

- 134,150 related to telecommunications (53 per cent);
- 59,150 related to broadcasts (23 per cent);
- 36,300 related to spectrum issues and licensing (14 per cent); and
- 24,550 were general enquiries (10 per cent).

During the reporting period, the Ofcom Contact Centre focused on recording consumer complaints and enquiries in more detail, in order to improve Ofcom's ability to monitor and investigate the issues they raised.

The Ofcom Contact Centre uses an interactive voice response system to offer recorded advice, which can direct callers to the help they need without holding on to speak to Ofcom staff. Some 61,990 callers listened to this recorded advice.

Central Operations resolved 97 per cent of all calls, internet forms, emails, letters and faxes without escalating the issue to other parts of Ofcom. The remaining three per cent were resolved within other functions across Ofcom.

Telecommunications

Some 20 per cent of all customer complaints in telecommunications were about broadband migration, where customers experience problems with changing broadband service or the provision of service in a new property. Issues include 'tag on the line' and problems with Migration Authorisation Codes – a unique alphanumeric reference that enables customers to switch broadband provider smoothly and with minimal disruption.

Some eight per cent of customer complaints were about slamming, where a customer is switched to a new supplier without their knowledge or consent; and mis-selling, where consumers sign up to a service based on information which they later find is untrue.

Other customer complaints in telecommunications included:

- delayed installation of service;
- inadequate customer service by service providers;
- silent calls;
- the time taken, or failure, to repair a service;
- problems with loss of service; and
- issues relating to contract terms.

Where appropriate Central Operations meet with companies to discuss ways in which their service to customers can be improved. Details of companies which demonstrate persistent problems are passed to Ofcom's Competition Group for potential formal investigation.

Spectrum

The Ofcom Licensing Centre dealt with more than 36,300 enquiries from users and providers of radiocommunications services, as well as other members of the public. These related to:

- guidance for radiocommunications users on licensing issues relating to the Wireless Telegraphy Act;
- Wireless Telegraphy Act licence fee queries; and
- Ofcom's online Sitefinder service, which enables the public to identify the location of mobile phone base stations by postcode.

During 2006/7 the Ofcom Licensing Centre in-sourced the support of Amateur and Ships' Licensing from the Radio Licensing Centre in Bristol and some 130,000 life-time licences have now been issued to these licensing customers.

The Ofcom Licensing Centre was also responsible for the issuing of licences to customers (see page 60 for details).

Broadcasting

The Ofcom Consumer Services broadcasting team logged 59,150 complaints from the public. Any complaints not resolved by the team were passed to the Content & Standards Group for further investigation. The overall number of complaints about broadcasting increased significantly as a result of some programmes generating high volumes of complaints from viewers and listeners.

The greatest cause for complaint about television and radio programmes was material which viewers or listeners found harmful or offensive, including racist comments, strong language, sexual portrayal and religious offence.

A record number of complaints were received about *Celebrity Big Brother* (approximately 45,000). Other programmes that generated significant numbers of complaints during the year were:

- *Shipwrecked*
- *Big Brother 7*
- *The Brit Awards Live*
- *Dispatches: Undercover Mosque*
- *The Great Global Warming Swindle*
- *Coronation Street*;
- coverage of various news items; and
- the operation of various quiz shows and channels.

A number of complaints were also received about the amount of advertising on some channels.

Many of the complaints received about broadcasting issues were referred for further investigation within Ofcom.

For Ofcom Central Operations' key performance indicators, see page 71.

Political, National and Regional engagement

Ofcom is committed to ensuring its policy development and regulatory actions are informed by the views of everyone with an interest in the outcome. To achieve this, Ofcom has offices in Northern Ireland, Scotland, Wales and the English regions; a number of advisory bodies; and a team responsible for the management of public and political relationships in the UK and throughout the European Union.

Nations and Regions

Ofcom has three national offices, led by senior directors in Belfast, Cardiff and Glasgow, as well as other regional offices for its spectrum management Field Operations teams.

Together with the England Directorate, based in Riverside House in London, the National and Regional functions help ensure sufficient attention is given to important national and local issues. These include both the availability of broadband and the range of available speeds and digital television in rural areas, and issues such as mobile phone coverage and spectrum use.

Advisory bodies

Details of the work of the Consumer Panel are given on page 83.

Details of the work of the Ofcom Spectrum Advisory Board are given on page 83.

Details of the work of the Advisory Committee for Older and Disabled People are given on page 84.

Details of the work of the Committees for the Nations and Regions are given on page 84.

Public and political relations

Ofcom is a statutory organisation, independent of Government but accountable to Parliament. To ensure Parliament is kept fully informed about Ofcom's work, the Public and Political Relations team acts as an interface between parliamentarians and Ofcom's regulatory announcements and decisions.

The team also links with Ofcom's directors in the Nations to ensure that the devolved administrations are fully aware of Ofcom's priorities and co-ordinates Ofcom's European stakeholder relationships.

Section C Operating and Financial Review

Performance and evaluation

In this section we explain how we evaluate our performance and then focus on three key areas: the extent to which we have met our objectives and applied our regulatory principles; our financial performance; and our effectiveness in service delivery and enforcement.

Key operating and financial highlights

- 195 outputs delivered, against 193 planned.
- We reduced or better targeted regulation more often than we increased it.
- Two consultations received over 1,000 responses each and the total number of responses to the remaining 60 consultations was 1,730.
- Impact assessments were included in 46 consultation documents.
- Ofcom's actual operating costs were £129.4m: £0.1m lower than budget.
- We repaid £5.2m of the loan received from the Department of Trade and Industry to set up Ofcom.

Evaluating Ofcom's performance

We are committed to reviewing and evaluating our performance, and then applying what we have learnt. We discuss below the various ways in which we currently measure our effectiveness and, as we become a more established organisation, we will be exploring new ways of doing so.

Unlike a private company that seeks to maximise profits on behalf of its shareholders, Ofcom does not have a single objective that lends itself to easy measurement. There are three main reasons for this. First, although our primary duty is to further the interests of citizens and consumers, including businesses, we have a wide range of specific duties and a diverse range of stakeholders. Secondly, it is often hard to differentiate between our impact on market developments and the impact of a wide range of other factors. And thirdly, deciding whether we are fulfilling our duties and applying our regulatory principles is often subjective, meaning that assessing our performance in a measurable way is not straightforward.

Nevertheless, there are a number of ways in which we do review our effectiveness. These are divided into four areas, which are illustrated in Figure 1.

Figure 1: Ofcom's framework for evaluation

In the rest of this section we focus on the top half of the framework, namely on the extent to which we are achieving our objectives and applying our regulatory principles, and on our internal efficiency and effectiveness, including service delivery and enforcement.

Ultimately, however, we believe that our performance should be judged by reference to market developments and the outcomes that are delivered for citizens and consumers. We measure these outcomes in a number of ways and publish the results during the course of the year.

Every year we publish our *Communications Market Report*, which provides a comprehensive picture of developments in the communications sector. This is supplemented by a range of reports on specific issues, such as the take-up of digital TV and broadband, and an extensive programme of market research. In particular, we published a report called *The Consumer Experience* (November 2006), which presented a positive picture of the benefits that competition has delivered for consumers. For example, the cost of a basket of residential communications services fell from £113.40 per month in 2001 to £76.20 per month four years later. Overall, customers' satisfaction with their suppliers remains high – between 88 per cent and 93 per cent – and this is in line with banking and energy markets.

We are also starting to examine the impact of particular policy initiatives. We published a report *Evaluating the impact of the Telecoms Review* (October 2006) that sought to assess the effectiveness of the action we took to stimulate competition in the telecoms sector and thereby deliver increased benefits for consumers.

We also measure stakeholders' perceptions of our performance, seeking their views on a wide range of issues, including the quality of our outputs and how well we have consulted. In addition, we conduct regular surveys of those stakeholders for whom we provide a service, such as spectrum users and individuals who contact the Ofcom Contact Centre. The main findings are presented below alongside our key performance indicators (KPIs).

Achieving objectives and applying regulatory principles

Ofcom's approach to regulation reflects the fast-moving nature of the communications sector. The speed with which the communications sector is changing makes it especially important for us to have clear guiding principles. We are required by the Communications Act to have regard to the principles of better regulation developed by the Better Regulation Task Force (now the Better Regulation Commission), namely that regulation should be transparent, proportionate, consistent, accountable and targeted. When Ofcom was established, we built on these principles by developing a more specific set of principles to inform our day-to-day work. These are set out in Figure 2.

Figure 2: Ofcom's regulatory principles

When we regulate

- **Ofcom will operate with a bias against intervention, but with a willingness to intervene promptly and effectively where required.**
- **Ofcom will intervene where there is a specific statutory duty to work towards a public policy goal that markets alone cannot achieve.**

How we regulate

- **Ofcom will always seek the least intrusive regulatory methods of achieving our policy objectives.**
- **Ofcom will strive to ensure that our interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome.**
- **Ofcom will regulate with a clearly articulated and publicly reviewed Annual Plan, with stated policy objectives.**

How we support regulation

- **Ofcom will research markets constantly and will aim to remain at the forefront of technological understanding.**
- **Ofcom will consult widely with all relevant stakeholders and assess the impact of regulatory action before imposing regulation on the market.**

In line with these principles, we have focused on evaluating Ofcom's performance in five key areas:

- delivery against our Annual Plan 2006/7;
- our success in reducing regulation, where that has been appropriate;
- the effectiveness of our consultation with stakeholders;
- the timeliness of our decision-making following consultation; and
- our performance in carrying out impact assessments to inform our policy decisions.

The outputs set out in our Annual Plan relate predominantly to policy issues, but we also provide a range of important services to stakeholders, such as licensing access to the radio spectrum and providing advice via our Contact Centre. These activities are detailed later in this section.

We have a number of projects that will enable us to deliver these services more efficiently, including integrating and updating our information systems. More details are given in our Annual Plan 2007/8.

2006/7 Annual Plan outputs

If Ofcom is to be able to respond to the key issues facing citizens and consumers, including businesses, it is essential that we have a transparent approach to developing our policy priorities and planning our work, and that we engage with our stakeholders to obtain their views.

Each year, therefore, we run a consultation process to help us develop our Annual Plan. This includes a number of public meetings held throughout the UK.

Every quarter we update the table on our website that shows the outputs, such as consultation documents or statements, that we are intending to produce. This enables stakeholders to keep track of when the documents that are of interest to them will be published.

Our Annual Plan for 2006/7 listed 193 outputs that we expected to publish during 2006/7. The number of outputs that we actually delivered was 195. This shows a high level of delivery and means that the number of outputs that we planned to deliver was accurate.

However, not all of the planned outputs were delivered. A number of outputs were cancelled or put on hold because, for example, an initial assessment revealed that it was not the right time to carry out a market review. And some outputs were deferred to 2007/8. There were also some outputs that we had not planned, largely because of the need for us to respond to external events that could not have been anticipated.

Reducing regulation

A key element of better regulation is ensuring that regulation is properly targeted and does not impose undue burdens on our stakeholders. In December 2006, we published an Updated Simplification Plan, which sets out all the initiatives we are taking to remove or reduce regulation. The need to fulfil our wide-ranging statutory duties, however, means that in some areas we have introduced new regulation. Therefore, the question of whether the overall level of regulation has reduced is not a straightforward one.

Figure 3 summarises Ofcom's policy statements published during 2006/7. In this figure:

- we have assessed how each decision affected the direction of regulation and have reflected this in the colour of the circles; and
- we have assessed the impact of the decision by multiplying the size of the market affected by the impact of the regulation and have reflected this in the size of the circles.

Assessing the impact of a decision inevitably involves an element of subjectivity, but we believe that the figure provides a useful overview of Ofcom's regulatory decisions. From it we conclude that:

- in terms of the number of decisions, we reduced or better targeted regulation more often than we increased it; and
- in terms of impact, the overall net effect was to reduce regulation.

Figure 3 also shows that we are reducing regulation in a range of areas, including:

- liberalising the use of the radio spectrum by, for example, removing the need for some spectrum users to buy licences;
- extending spectrum trading;
- releasing more spectrum to the market;
- reducing the regulation of retail telecoms markets to enable both business and residential consumers to benefit from increased competition;
- relaxing the rules that govern the cross-promotion of broadcast channels; and
- revising the regulation of channel sponsorship to give broadcasters more freedom to pursue commercial opportunities.

Figure 3 also demonstrates that Ofcom is prepared to take firm action to protect citizens and consumers where necessary. For example:

- we have acted to ensure that the process to enable broadband consumers to switch supplier is straightforward; and
- we have introduced new rules on the TV advertising to children of foods that are high in salt, sugar or fat, to lessen the impact on their food choices.

Consultation periods and responses

Consultations are one of the key ways in which we engage with stakeholders and enable them to influence our policy decisions. It is essential that we achieve a balance between allowing stakeholders sufficient time to contribute, making decisions in a timely manner and being transparent in our reasoning.

Ofcom's consultation guidelines state that we will generally allow ten weeks for consultation on complex policy issues. This is shorter than the Cabinet Office guidelines on consultation that govern Government departments, but we believe that this is appropriate given the speed with which the communications sector changes.

Sometimes, however, we will consult for less than ten weeks. When we decide to do this, our guidelines say that we will explain why. Where formal consultations need to be shorter than ten weeks, we will usually aim to allow at least five weeks, although this may not always be possible.

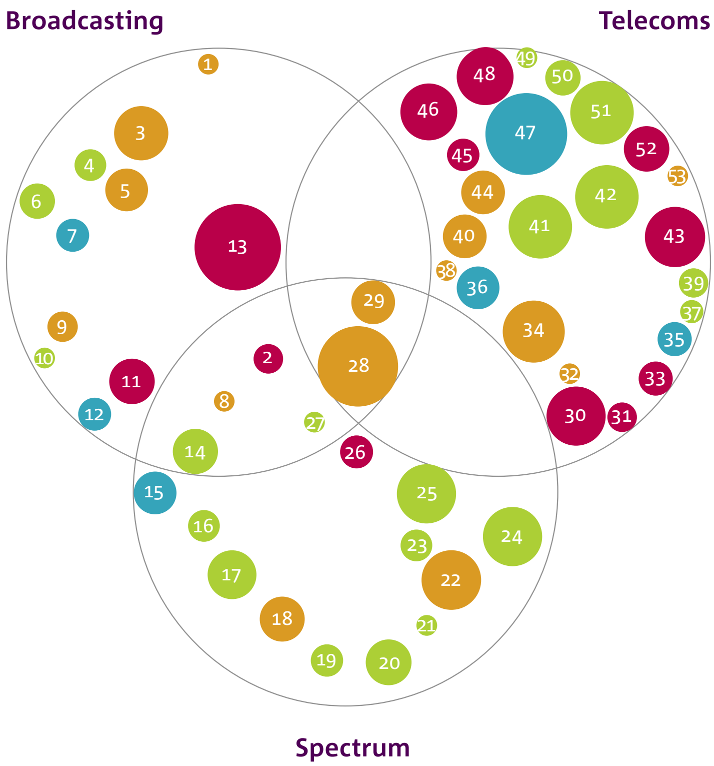
There are a number of reasons why we may decide to consult for less than ten weeks. For example:

- the issue in question only affects one particular group of stakeholders;
- the proposal will have a limited impact or is a limited amendment to an existing policy;
- the issue needs to be looked at urgently;
- the law requires us to act within a specific time period;
- the stakeholders involved in a specific consultation agree that a shorter consultation is approprriate; or
- it is the second consultation on an issue.

Figure 4 sets out an analysis of policy consultations by sector and shows a high level of adherence to our guidelines. In relation to five consultations, we consulted for less than ten weeks and did not give a clear explanation of why this was the case. Although there are a variety of reasons why in some cases we do not consult for ten weeks (as set out above), it is important to ensure that stakeholders understand why this is the case. We will therefore renew our efforts to ensure that, in future, our guidelines are followed properly in all cases.

Ofcom also collects statistics on the number of responses to consultations. This is shown in Figure 5. The chart illustrates the large number of responses we have had over the year, based on the 62 consultations where we subsequently published a statement. Two consultations had an unusually high level of responses (of approximately 1,100 and 1,300). The total number of responses to the remaining 60 consultations was 1,730. A small number of consultations have attracted a very wide range of responses, while most of the issues we consulted on were narrower in scope and of interest to a smaller constituency of stakeholders.

Figure 3: Ofcom's key decisions – direction of regulatory change



Size of circles indicates amount of regulation and size of markets affected Increased/new Mixed/no change Streamlined/co-regulatory Reduced/forbearance

Source: Ofcom's regulatory log

1. Conditional access charges
2. Digital switchover-related licence changes
3. TV production review
4. Channel sponsorship
5. Product placement
6. Cross-promotion rules
7. Fairness and privacy complaints handling guidelines
8. Data limits for digital terrestrial TV multiplexes
9. Review of ITV networking arrangements
10. TV donations appeals
11. Technical platform services guidelines
12. TV access sevices reviews
13. TV advertising and children
14. Pay TV on multiplexes B,C,D: free-to-air requirement
15. Modifications to spectrum pricing
16. Wireless Telegraphy Act licence changes
17. Award of 1785 - 1805MHZ spectrum
18. Wireless Telegraphy licencing procedures and criteria
19. Spectrum licensing: 71 - 76GHz & 81 - 86GHz
20. Wireless Telegraphy amendment regulations
21. Wireless Telegraphy licensing – ships' radio
22. High power limits for licence exempt devices
23. Radio restricted services 55 to 68MHz
24. Spectrum award: 412 - 414 & 422 - 424MHz
25. Business radio trading & liberalisation
26. RSA for radio astronomy
27. Community audio distribution
28. Consumer policy
29. Future licensing DAB digital radio
30. Mobile call termination
31. Conditions regulating sexual entertainment services
32. H3G holding SMP
33. Raising confidence in telephone numbers
34. Approval of ICSTIS code
35. BT's regulatory financial reporting
36. Metering and billing
37. Waiver of BT's price notification requirements
38. E2E connectivity
39. Wholesale international services
40. Conserving geographic numbers
41. Retail prices
42. Future of number translation services
43. Number translation and premium rate services
44. 09 PRS and codes for mobile number portability
45. Increasing mobile number supply
46. VoIP services
47. Telephone numbering
48. Conditions regulating premium rate services
49. BT public call boxes
50. BT exemptions re Undertakings
51. Replicability of BT's regulated retail business services
52. Broadband migrations
53. BT systems separation

Figure 4: Analysis of consultation duration

	Consultation period at least 10 weeks	Consultation period less than 10 weeks and explanation given	Consultation period less than 10 weeks and no explanation given
Telecoms	8	17	2
Broadcasting	5	5	2
Spectrum	13	9	0
Other	1	0	1
Total	**27 (43%)**	**31 (49%)**	**5 (8%)**

Figure 6: Analysis of the time taken to publish an Ofcom policy decision from the close of the consultation period

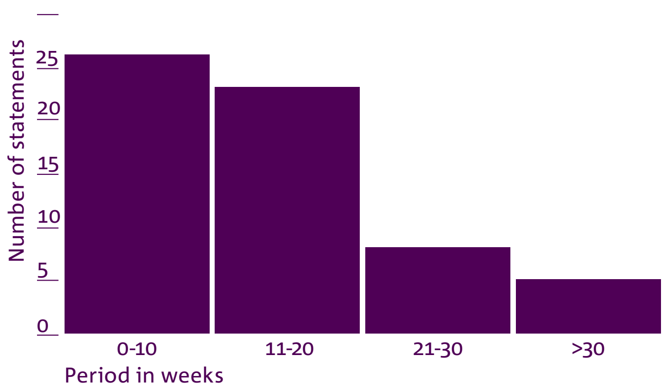


Figure 5: Responses to consultations

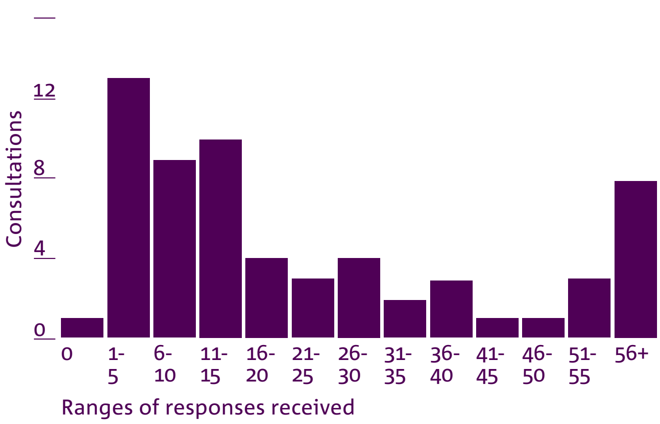


Figure 7: Analysis of impact assessments carried out

	Number of consultation documents	
	Total	**IA explicit in published document**
Telecoms	27	17
Broadcasting	10	5
Spectrum	24	24
Other	2	0
Total	**63**	**46 (= 73%)**

Timeliness of decision making

We have also analysed the time that we take to publish a policy statement following the close of a consultation period.

There are a number of factors that affect the length of the period from the close of the consultation period until publication of the subsequent statement, including:

- the number and type of responses we get;
- whether our final decision is dependent on external factors; and
- the need for us to prioritise the use of our resources.

An analysis of our decision-making time is shown in figure 6, with the average time between a consultation period ending and the final decision being 14.6 weeks.

Ofcom now intends to track more closely the time we take to reach policy decisions, with a view to shortening it wherever possible, particularly in those cases where the factors are under our control. In doing so, we will continue to ensure that all responses to our consultation documents are considered properly.

Impact Assessments

Impact Assessments are an important part of the policy-making process. They ensure that in relation to our policy decisions:

- a wide range of options is considered, including the option of not regulating;
- these options are clearly presented;
- the impacts that would flow from each option are analysed carefully; and
- the costs associated with the chosen option are outweighed by the benefits.

Ofcom has a statutory duty to publish a list of the impact assessments carried out during the year. This can be found in Section D.

In July 2005, we published guidelines, *Better Policy-Making: Ofcom's Approach to Impact Assessment*, that emphasised Ofcom's commitment to conducting assessments as an integral part of the policy-making process and stated that we expected to carry out impact assessments in the great majority of our policy decisions. Figure 7 sets out an analysis of the extent to which Ofcom's consultation documents contained a clearly-labelled impact assessment, i.e. an impact assessment that was set out in a specific section or annex of the consultation document.

The table shows that 73 per cent of consultation documents contained a clearly-labelled impact assessment. We have analysed the cases where there was not an identifiable impact assessment and there were a number of reasons for this, such as:

- the document was a consultation on operational issues, such as Ofcom's Annual Plan, so did not contain specific policy proposals; or
- we were consulting on guidelines that clarified but did not change our underlying policy position.

This analysis shows that we are meeting the commitment that we made in our guidelines, and we will continue to ensure that impact assessments are carried out and properly presented in all relevant cases.

Financial performance

Ofcom's statutory framework

Ofcom's duties and powers are derived principally from the Communications Act 2003, which received Royal Assent on 17 July 2003.[1]

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 television 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 Act also incorporated principles relating to how we should undertake our duties, requiring us to act in a way which is transparent, accountable, proportionate, consistent and targeted.

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 the provision of broadcasting and associated facilities; and
- funding to cover Ofcom's operating costs for spectrum management in the form of grant-in-aid from the Department of Trade and Industry (DTI).

Grant-in-aid covers the costs of regulating and managing the UK radio 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.

HM Treasury spending caps

During 2007 Ofcom agreed its funding settlement with HM Treasury covering the years 2007/8 to 2010/11. The settlement ensures that Ofcom has the appropriate resources to continue to fulfill its role efficiently and effectively. As part of the negotiations there was a minor change to Ofcom's funding arrangements. In the past, certain technology research was funded directly by HM Treasury under the Spectrum Efficiency Scheme. In the future this research, which is expected to cost £3.5m in 2007/8, will be included in Ofcom's budget and overall spending cap.

In addition to the Ofcom cap, a separate spending cap and budget covers activity in spectrum awards and clearance reflecting the expected activity in this area. In line with the Communications Act, spending on spectrum clearance will require the specific consent of HM Treasury and will be funded by grant-in-aid from the DTI.

Ofcom collects fees from Wireless Telegraphy Act (WT Act) licensees. Ofcom then passes the monies collected

1. Other statutes also form part of Ofcom's rulebook. They are the unamended parts of:
- The Marine Etc Broadcasting Offences Act 1967
- The Broadcasting Act 1990
- The Broadcasting Act 1996
- The Competition Act 1998
- The Enterprise Act 2002
- The Wireless Telegraphy Act 2006

to the DTI which remits a proportion back to Ofcom in the form of grant-in-aid to fund Ofcom's spectrum management activities and remits the remaining amount to the UK Exchequer. Ofcom's Section 400 accounts, published on the Ofcom website, details the monies collected and grant payments received.

After the reporting period, Ofcom agreed, under Section 401 of the Communications Act, to examine an alternative approach where Ofcom would collect the WT Act fees, deduct the costs of its spectrum management activities, and remit the remaining monies directly to the UK Exchequer.

Operating results

Ofcom's actual operating out-turn, the annual fees that Ofcom charges its stakeholders, on an adjusted cash basis was £129.4m in 2006/7 (2005/6: £129.0m), £0.1m lower than budget.

Ofcom continued to demonstrate value for money by delivering the key policy outputs planned in the 2006/7 Annual Plan, within its financial budget. Ofcom's underspend against its financial budget reflects a number of items including staff costs and professional fees in the policy areas.

Ofcom's total operating expenditure in the income and expenditure account increased by less than one per cent in 2006/7. Increases in staff costs were funded through savings in operational costs.

The increased staff costs (Note 4) reflect the increase in average staff numbers by 27 during the year and an average pay settlement in line with RPI. In 2005/6 pension costs included a one-off curtailment gain due to individuals transferring their deferred pension provision from the former ITC plan to the Ofcom scheme. There was no similar gain in 2006/7.

Other Operating costs (Note 6) show savings of £5.1m, a significant amount of this results from insourcing the desk-top IT infrastructure support which was completed in the latter part of the previous financial year. There has been some reallocation of expenditure this year particularly to outsourced services and professional fees from IT costs. (Note 6) Professional fees, excluding IT-related expenditure of £1.9m that has been reclassified in the year, have reduced as a result of the transfer of pension fund costs to the pension charge in staff costs, and a reduction in actuarial advice. Additional temporary resources in 2006/7 cover increasing workloads in consumer enforcement and assistance to implement the new IT systems.

The increase in administration expenditure includes Ofcom's share of the marketing expenditure relating to the removal of retail Price Controls on BT (see page 25 for details), expenditure on the Regional Radiocommunication Conference (page 41) and training for project directors. The organisation continues to take opportunities to rationalise its property portfolio and implement both energy and cost saving initiatives across its operating properties.

In addition to Ofcom's own expenditure, the income and expenditure account also includes £6.4m for spectrum efficiency projects (2005/6: £6.7m) which are funded by grant-in-aid from the Treasury and £1.7m (2005/6: £1.1m) of expenditure for the programme of spectrum awards. Spectrum efficiency projects are recorded within technological research in Note 6 of the financial statements and the initial work on the programme of spectrum awards is represented under professional fees. The reduction of £1.8m in technology research (Note 6) largely reflects savings made through efficient outsourcing of spectrum research and testing activities.

A reconciliation below highlights the differences between the total operating expenditure as presented in the income and expenditure account and Ofcom's actual operating out-turn of £129.4m.

Reconciliation from the income and expenditure account to Ofcom budget out-turn	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Operating expenditure - income and expenditure account	125,175	124,406
Spectrum Efficiency Scheme grant-in-aid	(6,364)	(6,675)
Grant-in-aid expenditure on the programme of spectrum awards	(1,710)	(1,117)
Capital expenditure less depreciation	2,133	547
Vacant property costs	7,645	4,855
Pension contributions versus service costs	1,640	8,958
Actual rent payments less expenditure	2,795	2,784
Non-operating income less non-cash provisions	(1,819)	(1,280)
Proceeds from fixed assets	(75)	(3,492)
Total Actual Operating Costs Out-turn	**129,420**	**128,986**

Surplus for Financial Year

Ofcom calculates its required operating revenue based on its statement of charging principles taking into account the actual funds that it needs to collect to discharge its cash liabilities during the year. This results in an accounting surplus only. Ofcom returns any surplus funds to stakeholders through a reduction in the annual tariffs raised in the following two financial years.

The surplus for the year under review was recorded as £22.1m (2005/6: £32.6m) The surplus is required to cover expenditure not reflected in the Income and Expenditure Account including DTI loan repayments, capital expenditure, property-related expenditure in respect of vacant properties and contributions to the two defined benefit pension plans. The reduction in the surplus is due to the declining payments on the DTI loan which reduced from £17.8m to £5.2m in 2006/7. The final loan instalment is repayable in 2007/8.

2007/8 Tariffs

On 30 March 2007, Ofcom published the Tariff Tables for 2007/8, which were based on an estimated operating out-turn for 2006/7 of £128.5m.

A total of £1m – the difference between the original budget of £129.5m and the estimated operating out-turn – is already being passed back to stakeholders in 2007/8 as part of the current regulatory tariffs or reimbursement of grant-in-aid claims.

The sum of £0.9m, which represents the difference between the final operating out-turn and the estimated operating out-turn, will be charged to stakeholders in accordance with the provisions of the Communications Act 2003. Specifically, Ofcom will recover £0.5m from the DTI in the second quarter of 2007/8 and the balance of £0.4m will be charged to stakeholders in 2008/9 through 2008/9 licence and administration fees. These sums have been included in Ofcom's balance sheet at 31 March 2007.

Ofcom's operating budget for 2007/8 is five per cent lower in real terms than the 2006/7 operating budget. However in 2007/8 as a result of our discussions with HM Treasury research expenditure (which was formerly funded by HM Treasury directly under the Spectrum Efficiency Scheme) will be included in Ofcom's budget. In 2007/8 this research is expected to cost £3.5m and therefore Ofcom's budget has been increased from £126.7m, on a like-for-like basis, to £130.2m.

Despite these adjustments regulatory fees for 2007/8 will still rise by less than the RPI, which was 4.5 per cent in summer 2007. Specifically they will increase by:

- an average of 1.1 per cent for television licensees;
- an average of 1.4 per cent for the radio sector; and
- an average of 2.9 per cent for network and services operators.

People

At 31 March 2007, Ofcom had 800 (2006: 776) employees and three (2006: two) secondees. During the year Ofcom recruited additional staff for its consumer policy, competition and consumer enforcement teams.

Pensions

Ofcom's primary means of providing pension benefits is through a pension allowance that is provided to all new recruits and to those colleagues from the legacy regulators who have chosen this option. This allowance may be used to make contributions to the Ofcom defined contribution stakeholder pension plan. Other colleagues from the legacy regulators are provided with membership of the defined benefit pension schemes.

Ofcom has reduced its exposure to the greater financial risk associated with defined benefit pension schemes by introducing the pension allowance and limiting the potential growth of pensionable salary under defined benefit commitments.

Ofcom's approach has proved to be successful in minimising liability while also ensuring colleagues are able to set aside funds for retirement. In total, 79 per cent of Ofcom colleagues are employed on terms with access to a stakeholder pension plan; 18 per cent are on Ofcom terms with a defined benefit pension with restricted pensionable salary growth; and three per cent remain on the existing terms inherited from legacy organisations.

For those colleagues who joined Ofcom from the legacy regulators and who elected to retain membership of a defined benefit pension scheme, Ofcom operates two such schemes, which are closed to new entrants:

- the Ofcom (former ITC) Pension Plan ('the former ITC Plan'), which Ofcom jointly participates in with the Advertising Standards Authority ('ASA'), S4C and S4C Masnachol; and
- the Ofcom Defined Benefit Pension Plan ('the Ofcom Plan'), which Ofcom jointly participates in with the ASA.

The accounting treatment of these defined benefit schemes is set out in Notes 12 and 25 of the notes to the financial statements and has been updated by an independent qualified actuary. These show that Ofcom has a pension asset as at 31 March 2007 of £6.2m as measured by Financial Reporting Standard 17 (FRS 17).

Both plans contribute to the pension fund asset. The value of the asset recognised in 2006/7 is much smaller than in prior years following the transfer of active members from the former ITC Plan to the Ofcom Plan. The former ITC Plan is a closed plan with a small number of active members and the circumstances under which there would be a refund of contributions to the employer are limited. Therefore in accordance with the asset limits of FRS17 the value of the asset has now been restricted. By contrast the last actuarial valuation of the plan showed a net deficit at 1 January 2004 of £6.0m.

The results calculated by the actuaries for the Ofcom plan indicate an accounting surplus at 31 March 2007 made up of advance contributions paid in March 2007 of £1m and some beneficial performance within the plan in the year.

Ofcom made (and continues to make) cash contributions to the Ofcom Plan and the former ITC Plan on the basis of the actuarial valuation. This included a £1m payment in advance. These cash contributions, rather than the amount charged to operating surplus (as calculated under FRS 17), are included in operating expenditure used to calculate the tariffs charged to stakeholders each year.

During the year, Ofcom made defined benefit contributions of £4.6m to the two defined benefit pension plans. The contributions to the defined benefit schemes included £2m paid in advance of the schedule of contributions. Separately, Ofcom colleagues in receipt of the pension allowance elected to pay a total of £3.1m into the Ofcom defined contribution stakeholder pension scheme.

Additional funds collected on behalf of HM Treasury

In 2006/7, in accordance with Section 400 of the Communications Act, Ofcom invoiced and collected £229.9m (2006: £228.9m) from wireless communications and broadcasting companies in spectrum revenues and licence receipts.

At 31 March 2007, £40.7m (2006: £39.8m) of spectrum fees were uncollected. Most of these debts were not due for payment and will be recovered in the ordinary course of business. No significant debts may be written off without the written authorisation of HM Treasury. At the balance sheet date, an amount of £1.3m has been outstanding for more than 12 months from Inquam Telecom (Holdings) Limited. Inquam has agreed a future repayment plan under a legal agreement with Ofcom.

Investments in fixed assets

During the full-year period under review, Ofcom invested a total of £3.9m (2006: £6.6m) in tangible fixed assets and £5.3m (2006: £0.9m) in intangible fixed assets. Ofcom's investment in information systems and equipment, which relates primarily to Project Unify – a multi-year programme to replace 45 different IS systems – accounted for £3.8m of assets under construction and the majority of the remaining investment.

Payments of suppliers

Ofcom's target is to make all payments not in dispute within 30 days or less of acceptance of the relevant goods and services, or the receipt of a legitimate invoice if that is later. For 2006/7 we achieved a performance of 98.8 per cent against this target (2005/6: 99.8 per cent). The slight reduction in our performance against target is as a result of migrating to a new accounting system in November 2006.

DTI loan

To cover the cost of establishing the organisation Ofcom received a £52.3m loan from the DTI. The set-up costs were incurred during the period March 2003 to January 2004. The repayment period of the loan is between March 2004 and March 2008. The repayment of the loan capital and interest is funded from the main sources of income for Ofcom. 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.

During the year under review, Ofcom repaid £5.2m of the loan and at 31 March 2007, the loan balance outstanding was £5.2m.

Property management

During the year ending 31 March 2007, £6.8m of the vacant property provision was utilised following the assignment of the lease relating to the former headquarters of one of the legacy regulators. The remaining provision at 31 March 2007 was £0.4m (2006: £10.7m).

Statistical data

Service delivery and enforcement

As well as developing policy, Ofcom provides services to stakeholders and undertakes enforcement activity. Ofcom has a range of Key Performance Indicators (KPIs) to measure how we are delivering these services. Together with financial performance, they provide a measure of our internal efficiency and effectiveness.

The data in this section relates to the following areas:

- Numbering – KPIs for applications for telephone numbers;
- Spectrum licensing – issuing licences (categories A, B and C);
- Spectrum licensing – licensing KPIs;
- Spectrum operations – field operations activity;
- Spectrum operations – field operations KPIs;
- Broadcasting – programme complaints (including KPIs);
- Broadcasting – fairness and privacy (including KPIs);
- Broadcasting – Content Sanctions Committee;
- Investigations programme – KPIs;
- Central operations – KPIs.

In most areas Ofcom is operating on – or close to – the targets we believe are required in order to meet stakeholder needs.

Numbering

Ofcom is responsible for managing telephone numbers in the UK. As part of this, we process applications for blocks of telephone numbers from Communication Providers.

Ofcom is required to make a determination on applications for telephone numbers within three weeks of receipt of all relevant information. During the period under review, Ofcom achieved 100 per cent allocation in all but two months which were June (98 per cent) and July (99 per cent).

Spectrum licensing

Ofcom issues around 30 different kinds of non-discretionary Wireless Telegraphy Act (WT Act) licence. These are generally referred to by the name of the equipment they licence, such as Ships' Radio Licence and Satellite Network Licence.

The non-discretionary 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.

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

Spectrum licences

Category A

Licences that involve no frequency assignment, site clearance or international co-ordination	Licences issued April 06 - March 07	Licences issued April 05 - March 06	Total on issue as at 31 March 07
PBR UK General	1,085	957	4,757
Fixed Wireless Access (5.8 GHz) *formerly 5.8 Ghz*	77	62	185
Business Radio (Self-Select) *formerly Self-Select (One-way Paging)*	1,148	641	6,800
Business Radio (Suppliers) *formerly PBR Suppliers*	41	33	422
Police and Fire	0	11	123
Subtotal for Business Radio products	**2,351**	**1,704**	**12,287**
Radar Level Gauge	13	21	422
Total for Category A	**2,364**	**1,725**	**12,709**

Category B

Licences that involve frequency assignment, but no site clearance or international co-ordination	Licences issued April 06 - March 07	Licences issued April 05 - March 06	Total on issue as at 31 March 07
Automatic Identification System	20	34	52
Coastal Station Radio (International)	35	29	484
Coastal Station Radio (UK)	36	31	448
Coastal Station Radio (Marina)	17	24	427
Coastal Station Radio (Search & Rescue)	0	1	1
Coastal Station Radio (Training School)	78	60	189
Maritime Radio (Suppliers & Demonstration)	6	6	90
Maritime Navaids and Radar	9	28	110
Differential Global Positioning System	3	0	17
Subtotal for Deregulation & Contracting-Out products	**204**	**213**	**1,818**
Business Radio (Standard) *formerly PMR Standard - (UK General) only*	0	0	146
Business Radio (IR 2008 Data) *formerly Interface Requirement 2008*	7	4	17
Business Radio (Speech and Data) *formerly On-site PBR (Speech and Data)*	2,981	2,680	23,487
Business Radio (On-Site Local Communications Systems) *formerly On-site PBR (Local Communications)*	51	70	1,201
Business Radio (On-Site Hospital Paging & Emergency Systems) *formerly On-site PBR (Hospital Paging and Emergency Speech)*	9	7	447
Business Radio (On-Site One-Way Paging & Speech Systems) *formerly On-site PBR (One-way Paging and Speech)*	151	146	1,734
Business Radio (Wide-Area Speech & Data Systems) *formerly Wide-Area PBR (Speech and Data)*	1,464	1,531	10,236
Business Radio (Wide-Area One-Way Paging and Speech Systems) *formerly Wide-Area PBR (One-way Paging and Speech)*	11	22	297
Business Radio (Wide-Area Distress Alarm Systems) *formerly Wide-Area PBR (Distress Alarms)*	6	40	58
Business Radio (National and Regional) *formerly National & Regional PBR*	7	4	69
Business Radio (GSM-R Railway Use)	1	0	1
Business Radio (Common Base Station) *formerly Common Base Station Operator*	17	28	563
Business Radio (CBS - (Band I and Sub Band I of Band III)) *formerly (Band I) and (Sub Band I of Band III) CBS*	2	3	14
Business Radio (Public Mobile Data, Non-voice) *formerly Public Mobile Data (non-voice)*	0	0	4
Business Radio (Public Access Mobile Radio) *formerly Public Access Mobile Radio*	0	0	4
Business Radio (Public Wide-Area Paging) *formerly Public Mobile Operator (for public wide-area paging)*	0	0	3
Public Safety Radio	0	5	4
Remote Meter Reading	0	0	2
Scanning Telemetry	0	1	28
Subtotal for Business Radio products	**4,707**	**4,541**	**38,315**
Total for Category B	**4,911**	**4,754**	**40,133**

Category C

Licences that require frequency assignment and site clearance and/or international co-ordination	**Licences issued April 06 - March 07**	Licences issued April 05 - March 06	**Total on issue as at 31 March 07**
Fixed Links	27	31	365
Satellite (Permanent Earth Station)	13	16	109
Satellite (Transportable Earth Station)	30	43	142
Satellite (Earth Station Network) *formerly Very Small Aperture Terminal*	5	8	40
Total for Category C	**75**	**98**	**656**

Test and development licences

	Licences issued April 06 - March 07	Licences issued April 05 - March 06	**Total on issue as at 31 March 07**
Non-operational Development Licence	258	247	264
Non-operational Temporary Licence	27	31	27
Total for test and development	**285**	**278**	**291**

Mobile and broadband licences

Licences issued through spectrum auction or awards	**Licences issued April 06 - March 07**	Licences issued April 05 - March 06	**Total on issue as at 31 March 07**
2G Cellular Telephones	0	0	4
3G Cellular Telephones	0	0	5
2G Channel Islands and Isle of Man Cellular Telephones	5	3	12
3G Channel Islands and Isle of Man Cellular Telephones	6	4	12
Fixed Wireless Access & Broadband Fixed Wireless Access 28 GHz, 3.6 GHz and 3.4 GHhz	6	0	16
Fixed Wireless Access & Broadband Fixed Wireless Access Channel Islands and Isle of Man 28 GHz, 3.6 GHz and 3.4 GHz	3	2	10
Total for Mobile and Broadband Wireless	**20**	**9**	**59**

Ofcom took over the licensing of CB, Amateur and Maritime from the Radio Licensing Centre (RLC) from December 2006. This function is now carried out by the Ofcom Licensing Centre (OLC). The figures for OLC include 130,000 lifetime licences that were issued to Amateur and Maritime radio users. The Civil Aviation Authority (CAA) issues aircraft licences and the Joint Frequency Management Group (JFMG) issues licences and authorisations for outside broadcasts and programme-making and special events.

Non-discretionary spectrum licences

Partners' Activity	Licences issued April 06 - March 07	Licences issued April 05 - March 06	Total on issue as at 31 March 07
Radio Licencing Centre (RLC) issues licences for CB, Amateur & Maritime (up to December 2006 after which this function in sourced back to Ofcom)	59,102	157,256	0
JFMG issues licences for Programme-Making & Special Events	2,472	2,417	3,020
CAA issues licences for Aeronautical	10,064	14,417	13,487
Total	**71,638**	**174,090**	**16,507**

Ofcom Licensing Centre (OLC)	Licences issued April 06 - March 07	Licences issued April 05 - March 06	Total on issue as at 31 March 07
CB, Amateur & Maritime (from December 2006 onwards)	142,473	n/a	140,181
Total	**142,473**	**n/a**	**140,181**

Total number of licences – all categories	**221,766**	**180,954**	**210,536**

Spectrum licensing performance indicators

Key performance indicators (KPIs) are currently in place for each category of licence. These measure the time taken by Ofcom to issue the licence and 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. The 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. Overall customer service satisfaction levels are at 90 per cent, with 91 per cent satisfied with the speed of receipt of licences. (Source: Ofcom survey.)

Key performance indicators

	KPI Target	KPIs achieved April 06 - March 07	KPIs achieved April 05 - March 06
Category A Licence	100% in 7 days	97%	94%
Category B Licence	90% in 21 days	98%	96%
	100% in 42 days	100%	100%
Category C Licence	90% in 42 days (100% excluding where international clearance is involved)	96%	94%
	100% in 60 days (including where international clearance is involved)	99%	95%

Test and development key performance indicators

	KPI Target	KPIs achieved April 06 - March 07	KPIs achieved April 05 - March 06
Category A Licence	100% in 7 days	100%	92%
Category B Licence	90% in 42 days	None issued	100%
Category C Licence	100% in 60 days	100%	100%

Partners' performance

	KPI Target	KPIs achieved April 06 - March 07	KPIs achieved April 05 - March 06
RLC	100% in 7 days	100%	100%
JFMG	100% in 7 days	100%	100%
CAA	100% in 7 days	94.2%	100%

Spectrum operations – field operations activity

Ofcom's Field Operations team is permanently on call to take action against illegal transmissions, to resolve interference and to undertake compliance audits of radiocommunications installations in every part of the UK. The following table lists our main activities.

Work Programme Activity/Incident	Period 2006/7 Reporting Year	Period 2005/6 Reporting Year
Interference investigation requests received	3,050	2,946
Baldock: Spectrum Activities (See Note 1 below)	2,749	2,858
Interference investigation cases closed	3,155	2,307
Spectrum assignments completed	N/A (See Note 2 below)	5,656
Enforcement operations against unlicensed and criminal activity	1,704	1,588
Radio system compliance inspections completed	712	1,277
Successful prosecutions for criminal spectrum activity	67	65
Unsuccessful prosecutions for criminal spectrum activity	0	0

Note 1: The work of the Baldock Monitoring Station is now recorded as "Baldock: Spectrum Activities". This figure includes reports of interference, and spectrum monitoring and measurement operations.

Note 2: The large majority of Spectrum Assignments are now undertaken by Ofcom's Central Licensing Team and not by Field Operations. This is therefore no longer a reportable part of the Field Operations Work Programme.

Spectrum operations – field operations performance indicators

The Ofcom Field Operations team seeks to meet the terms of a number of key performance indicators (KPIs), details of which are set out below. Customer satisfaction levels are at 79 per cent for investigations, 93 per cent for inspections and 86 per cent for enforcement. (Source: Ofcom survey.)

Table 1 below shows the targets and the achievement in relation to the KPIs which applied for the first six months of the business year.

Table 1

	Quality of Service Targets	**Achievement 1 April 2006 - 30 Sep 2006**	Achievement 2005/6 Reporting Year
QST 1	100% of reports of interference to safety-of-life radio systems to be investigated within 24 hours	100% (54 out of 54)	99.26% (134 out of 135)
QST 2	a) 98% of reports of interference to commercial/professional radio systems to be investigated within five working days	99.24% (393 out of 396)	98.53% (735 out of 746)
QST 2	b) 100% of such reports to be investigated within ten working days	100% (396 out of 396)	99.46% (742 out of 746)
QST 3	a) 98% of reports of interference to domestic broadcast reception to be investigated within one month	99.40% (1,152 out of 1,159)	99.33% (1,919 out of 1,932)
QST 3	b) 100% of such reports to be investigated within two months	99.57% (1,154 out of 1,159)	99.90% (1,930 out of 1,932)
QST 4	a) 90% of customers requesting interference investigation to be provided with case progress report within ten working days of start of investigation.	98.41% (1,049 out of 1,066)	99.25% (2,127 out of 2,143)
QST 4	b) 100% of such customers to be provided with case progress report within 20 working days of start of investigation	99.44% (1,060 out of 1,066)	99.67% (2,136 out of 2,143)

In October 2006 Ofcom introduced a new case management IT application, and the specific key performance indicators relating to interference case response and handling times were redefined at the same time in order to better reflect our performance not only in responding to interference reports (which is what the previous KPIs focused on) but also in resolving them as quickly as possible. The new KPI definitions and targets are shown in Table 2 below.

Unfortunately, at the time of publication the specific reporting tools required to provide the KPI performance report have not yet been fully tested and implemented. Figures for the second part of the year will be published at the earliest opportunity.

Table 2

Case category (see Note 1 below)		Case Stage (see Note 2 below)	Quality of Service Target
Safety of Life Services	QST 1a	Customer Liaison/Validation	100% within 2 hours
	QST 1b	Investigation	100% within 20 hours
	QST 1c	Closure (Overall case duration)	100% within 2 working days
Critical Service (Category 2)	QST 2a	Customer Liaison/Validation	100% within 12 hours
	QST 2b	Investigation	100% within 24 hours
	QST 2c	Closure (Overall case duration)	100% within 3 working days
Critical Service (Category 3)	QST 3a	Customer Liaison/Validation	90% within 1 working day
	QST 3b		100% within 3 working days
	QST 3c	Investigation	90% within 3 working days
	QST 3d		100% within 5 working days
	QST 3e	Closure (Overall case duration)	80% within 5 working days
	QST 3f		100% within 10 working days
Business/Professional Radio Services	QST 4a	Customer Liaison/Validation	90% within 1 working day
	QST 4b		100% within 3 working days
	QST 4c	Investigation	90% within 3 working days
	QST 4d		100% within 5 working days
	QST 4e	Closure (Overall case duration)	80% within 5 working days
	QST 4f		100% within 10 working days
Other Radio Services (inc Domestic Broadcast Reception)	QST 5a	Customer Liaison/Validation	90% within 2 working days
	QST 5b		100% within 5 working days
	QST 5c	Investigation	90% within 17 working days
	QST 5d		100% within 30 working days
	QST 5e	Closure (Overall case duration)	80% within 20 working days
	QST 5f		100% within 40 working days

Note 1: Case Category descriptions:

- Safety of Life – significant interference to a radio service which could seriously jeopardise the safety of human life, and there is no immediate alternative form of communication.
- Critical Service (Cat 2) – significant interference to a radio service which could seriously jeopardise efficient public/emergency services (though with no immediate risk to the safety of human life), and there is no immediate alternative form of communication.
- Critical Service (Cat 3) – as for Cat 2, but an effective alternative communications network is currently available.
- Business/Professional Radio Services – significant interference to a radio service which is used for commercial or professional purposes, but which is not considered to be a Critical Service.
- Other Radio Services – significant interference to all other licensed radio services, including broadcast reception.

Note 2: There are two interim stages in the interference case management process:

- Customer Liaison/Validation – during which Field Operations specialists assess and validate the report/requirement, and liaise with customer to arrange investigative visit(s).
- Investigation – during which Field Operations specialists make field visits to trace interference source and take appropriate remedial action.

Broadcasting – programme complaints

Ofcom has a statutory duty to consider and adjudicate on complaints from listeners and viewers about television and radio programmes transmitted by UK broadcast licensees, S4C and the BBC.

A total of 1,483 cases were closed in the period under review. A case represents an investigation opened into a specific programme and which can consist of one or more complaints about that programme.

Ofcom's Content and Standards Group reached decisions on a total of 5,575 programme complaints[1], of which 5,405 were complaints about programme standards (including issues relating to political advertising and the amount and distribution of advertising) and 170 were complaints about alleged unfairness and/or infringements of privacy.

Of the 5,405 programme standards cases closed:

- Four broadcasters were subject to statutory sanctions (single or multiple programmes) (15 complaints about 24 issues[2])
- 58 programmes were found to be partially in breach/in breach (94 complaints)
- 75 programmes were resolved/partially resolved (159 complaints)
- 3,315 programmes were not in breach (5,137 complaints)

Number completed within target[3]:

- Straightforward cases – 97.2% closed within target[4] of 40 days (target: 80%)
- Complex cases – 96.3% closed within target of 60 days (target: 80%)

Broadcasting – fairness and privacy

The Fairness Committee is Ofcom's most senior decision-making body with respect to fairness and privacy cases. It is a committee of Ofcom (with delegated powers from the Ofcom Main Board) and consists of a minimum of three Members, all of whom are drawn from the Content Board. It considers cases referred to it by the Executive (for example, due to their complexity). It also reviews decisions made by the Executive where either one or both of the parties have made a case for that decision to be reviewed.

Number of cases closed: 184

Of the fairness and privacy cases closed 29 were considered by the Fairness Committee (five of which involved a Hearing).

Of these:

- 14 were upheld (of which 13 were upheld in part); and
- 15 were not upheld

Decisions in relation to the remaining 155 closed fairness and privacy cases were reached by the Executive.

Of these:

- 13 were upheld (of which eight were upheld in part);
- 38 were not upheld;
- 7 were resolved (following appropriate action taken by the broadcaster); and
- 97 were not entertained or discontinued after entertainment.

79 per cent of cases were completed within the target of 125 days. Ofcom's target is 80 per cent.

1. Around 45,000 complaints in relation to *Celebrity Big Brother* were received but had not been adjudicated upon by the end of the period under review.

2 . "issues" relate to Code breaches.

3. In October 2006, Ofcom introduced a new case management computer system. Due to technical issues surrounding its implementation, the target data shown here relate to the complaints handled by the previous computer system between April and October 2006. Initial estimates show that between October 2006 and April 2007, complaints were handled at a rate close to the target.

4. As from 1 April 2007, Ofcom will change the way it monitors how quickly it deals with complaints about programmes. New performance indicators will be used as from the next Annual Report. The aim of the changes is to set tighter targets which are easier for the public to understand.

Broadcasting – Content Sanctions Committee

Cases which the Executive believe may warrant the consideration of a statutory sanction are referred to the Content Sanctions Committee, comprising five Members drawn from the Ofcom Board and the Content Board. Cases may also be referred from the ASA with the request that the Content Sanctions Committee consider the imposition of a statutory sanction. The Content Sanctions Committee is quorate with three Content Board Members. The Content Sanctions Committee is chaired by the Chairman of the Content Board. The Deputy Chairman of the Content Sanctions Committee is an Executive Member of the Content Board.

During the period under review, the Content Sanctions Committee applied sanctions in four cases.

The Content Sanctions Committee decided to fine and revoke the licence of:

- Television Concepts Limited in respect of the service, Look4Love – £175,000.

The Content Sanctions Committee decided to fine:

- Kiss 100 FM – £75,000 (for an upheld Fairness & Privacy complaint) and £100,000 (for Standards breaches).
- Digital Television Production Company Limited in respect of the service, Xplicit XXX – £35,000.
- Gamecast UK Limited in respect of its service You TV2 and also in respect of material broadcast as You TV3 – £100,000 (non-payment of which led to revocation of the licence).

All monies received in fines are passed to the UK Exchequer.

Investigations programme – performance indicators

Ofcom has an investigations programme to deal with complaints about anti-competitive behaviour, breaches of certain *ex ante* conditions and disputes. The following table examines Ofcom's activities in handling enquiries and full investigations during 2006/7, including performance against published targets (including statutory targets).

Category and target	Achievement level (for all closed cases during the reporting period irrespective of when opened)	Achievement level (for closed cases opened during the reporting period)
Decision to reject or accept enquiry within 15 working days	65% (of 46 closed, 16 exceeded target with agreement; 100% with agreement for complex cases)	65% (of 45 opened, 43 closed, 15 exceeded target with agreement; 100% with agreement for complex cases)
Resolution of disputes (four months, except in exceptional circumstances)	88% (eight cases closed, one exceeded target) Note: exceptional circumstances applied in one of the seven cases recorded as completed on time.	67% (of six opened, three closed of which one exceeded target) Note: two dispute cases that were opened prior to the reporting period remain open – exceptional circumstances applied to these
Competition Act investigations (six months where 'no grounds for action' decision made; 12 months for an infringement decision)	0% (one case closed which exceeded target)	N/A (no cases opened). Note: three cases that were opened prior to the reporting period remain open and have exceeded target
Part 8 of the Enterprise Act investigations (six months to obtain undertakings)	N/A (no cases closed)	N/A (no cases opened)
Investigations into breaches of *ex ante* conditions and unfair terms in consumer contracts (four months for a closure statement or notification that a condition has been breached)	100% (seven cases closed, none exceeded target)	100% (of three cases opened, all are closed). Note: one case that was opened prior to the reporting period remains open and has exceeded target
Own-initiative investigations (six months)	91% (11 cases closed, one exceeded target)	100% (of 13 cases opened, eight closed) Note: one case that was opened as an Enforcement Programme has been extended for a further six-month period
Total investigations	89% (27 cases closed, three exceeded target)	93% (of 22 cases opened, 14 closed of which one exceeded target). No ongoing case opened during the reporting period had exceeded its target as at 31 March 2007

Central Operations

The Ofcom Central Operations function deals with questions and complaints from a broad range of viewers, listeners, customers of telecoms companies and users of wireless communications services. Performance against targets for handling queries and complaints is shown here.

Answering calls

81% customers satisfied or very satisfied with ease of contacting the Ofcom Contact Centre (part of Central Operations) over the telephone and 80% of those who contacted Ofcom by telephone were satisfied with how quickly they got through to someone who could help them. (Source: Ofcom survey – May to November 2006).

Responding to correspondence

(Target: 80% in 10 working days)

- Broadcasting 78%
- Telecoms 79%
- Spectrum 93%

Issuing Licences

(Targets vary between seven and 42 days depending on complexity of licence type)

98% of licences issued within target

Section D 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 2007.

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 2006 to 31 March 2007.

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 radio spectrum and telecommunications in accordance with the duties imposed upon it under the Act.

Operating and Financial Review

The Chairman's Message on pages 4 to 6, the Chief Executive's Report on pages 7 to 13 and the Operating and Financial Review on pages 48 to 71 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 102 to 127.

External auditors

The Comptroller and Auditor General, whose staff is 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 2006/7 was £85,000.

In so far as the Accountable Officer is aware, there is no relevant audit information of which Ofcom's auditors are unaware, and the Accountable Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that Ofcom's auditors are aware of that information.

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 76 and 77. Details of Members' remuneration are set out on pages 95 to 101.

Members' interests

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

Post balance sheet events

There were no reportable post balance sheet events between the balance sheet date and 10 July 2007, the date when the Accountable Officer despatched the accounts to the Department for Trade and Industry. The financial statements do not reflect events after this date.

Ofcom mission and values

Ofcom's commitment to its mission and values is shared by Board Members and Ofcom colleagues. The purpose of the shared mission and values is to ensure each Board Member and colleague undertakes Ofcom's work by reference to a clear set of core values. Ofcom revisited and updated its values in summer 2006. Colleagues across the organisation were instrumental in developing the six values that reflect Ofcom's desire to work in an open, effective and people-driven way. In working in this way Ofcom strives to be dynamic, responsive and commercially aware; Ofcom values incisive thinking, rigorous evidence-based analysis and engagement with stakeholders. Ofcom's values are:

- Communicating openly and honestly;
- Listening with an open mind;
- Making a difference;
- Empowering and prioritising;
- Investing in and supporting our colleagues; and
- Genuine collaboration.

Colleague involvement and consultation

The quality, commitment and effectiveness of Ofcom colleagues are crucial to its success. Colleague involvement is actively encouraged as part of all Ofcom's day-to-day processes.

Ofcom specifically informs and consults its colleagues through:

- the Ofcom Colleague Forum, an information and consultation forum which is made up of representatives of colleagues from across Ofcom and which meets regularly with senior management at Joint Consultative Group meetings (which includes two members from the Partner Union);
- the Ofcom intranet, which is available to all colleagues in all of Ofcom's offices;
- presentations hosted by senior managers during which new strategic initiatives are explained to colleagues and updates are provided regarding continuing projects;
- regular inter-group meetings both to listen to colleagues and to disseminate information;
- monthly face to face briefings developed by internal communications colleagues to be used by managers at team meetings to educate colleagues about issues occurring across Ofcom;
- regular messages from the Chief Executive; and
- an annual all-colleague event to review progress and the year ahead.

Additionally Ofcom has developed a relationship with the Partner Union – a body made up of representatives from BECTU and Prospect.

Employment policies, performance development and public sector duties

Ofcom is an equal opportunities employer and recruits colleagues regardless of age, gender, cultural and ethnic background, disability, religion or belief and sexual orientation.

Ofcom is committed to building an organisation where all colleagues are treated fairly, with dignity and respect and has developed a range of policies which are consistent with the requirements of employment law, and in particular with legislation aimed at eliminating discrimination including the Race Relations (Amendment) Act 2001, the Disability Discrimination Act 1995 and, in relation to activities in Northern Ireland, section 75 of the Northern Ireland Act 1998 and the 1995 Disability Discrimination Order.

Ofcom has an internal whistle-blowing policy setting out the procedure colleagues should follow if they wish to raise a concern about malpractice within the organisation.

Ofcom has a performance management process to ensure colleagues agree clear objectives for both performance and their ongoing development. The number of development activities delivered across the organisation during the period exceeded 400.

Diversity and corporate social responsibility

In 2006, Ofcom appointed an Equalities and Diversity Manager to drive forward the diversity agenda and ensure that Ofcom complies with anti-discrimination legislation. The role also has responsibility for Ofcom's community-based CSR agenda.

Diversity Action Plan

The Diversity Action Plan sets out how Ofcom plans to promote diversity across the organisation. It articulates the actions and outputs needed to progress the diversity agenda within Ofcom.

Diversity

Legislative requirements

In 2006/7, Ofcom published its first Disability Equality Scheme, Gender Equality Scheme and Welsh Language Scheme. Ofcom also carried out a review of employment policies to ensure that they are age neutral in line with age regulations.

Diversity Champion

In 2006, Ofcom appointed a Diversity Champion, Tim Suter, to lead and have overall responsibility for the agenda within the organisation. Tim Suter sits on the Executive Committee and Content Board.

Diversity Working Group

Ofcom has established a Diversity Working Group to help steer the equalities and diversity agenda within the organisation. The group is chaired by the Diversity Champion and consists of colleagues from each Ofcom Group.

Benchmarking

Ofcom undertook Diversity Champions, Race for Opportunity, Opportunity Now and Disability Standard benchmarking to measure its performance on sexual orientation, race, gender and disability equality in the workplace.

Ofcom also carried out a workforce diversity benchmarking exercise, in which Ofcom compared positively, to monitor its performance against 19 other organisations.

Awareness raising activities

Ofcom celebrated Black History Month, Lesbian & Gay History Month and International Women's Day, to acknowledge and raise awareness of diversity issues across the organisation. Lunchtime seminars covering disability and age equality raised colleague awareness of their duties under relevant legislation.

Colleague affinity groups

Ofcom has established a Lesbian and Gay Colleagues' Network and Ofcom Women's Network to support colleagues from these groups and give them a collective voice within the organisation. Similar networks will be established for other groups in 2007/8.

Corporate Social Responsibility

Colleague Volunteer Scheme

A Colleague Volunteer Scheme has been established to enable colleagues to volunteer in a range of activities in the local community.

Through the Reading Partners Scheme, Ofcom works with Charlotte Sharman Primary School to help a group of ten children with their reading. The Language Mentoring Scheme teams Ofcom with Bacon's City Technical College to help pre-GCSE pupils with their conversational French.

Ofcom undertook a team challenge where volunteers created a rooftop garden at Robert Browning Primary School.

In response to the national shortage of young people entering engineering (particularly young women), St Saviour's & St Olave's School established a Girls' Science and Engineering Club, which is being supported by a team of Ofcom engineers.

Environmental issues

In the 2007 Colleague Survey, Ofcom made a commitment to plant a tree for each questionnaire that was completed. The survey elicited an 82 per cent return (689 colleagues) and Ofcom duly planted 689 trees in the Caledonian Forest in Scotland.

Statement on health and safety policy and practice

The Finance Director, who is Chair of the Health and Safety Committee, has responsibility for health and safety within Ofcom. The Committee meets quarterly and reports to the Operations Board. During the reporting

period three injuries were reported to the Health and Safety Executive. Following an internal audit and review of our health and safety function the team have taken a more risk-based approach to health and safety management. This has included the implementation of a health and safety operations manual with training in working at heights and risk management.

Data protection

Ofcom is a Data Controller under the Data Protection Act 1998 ('the Act') and is committed to processing all personal data in a manner which meets the requirements of the Act, including data protection principles. Ofcom also has a data protection training programme to ensure all colleagues understand their responsibilities to comply with the Act and information handling practice.

Freedom of Information

Under the Freedom of Information Act 2000 which established a general right of access to all types of recorded information held by public authorities, Ofcom has continued via its publication scheme to make a wide range of information readily accessible on its website. During the period under review, Ofcom received 868 requests for information and, in keeping with the Act's purpose to foster a culture of openness, Ofcom provided all or part of the information requested in 86 per cent of cases.

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

Ed Richards
Chief Executive

2 July 2007

Charitable donations

Since December 2003, Ofcom has been pleased to support St Mungo's, an organisation for the homeless, based locally in Southwark.

Ofcom raises funds via donated gifts and organises collections of practical items from colleagues for St Mungo's recipients. For the period under review, Ofcom has raised £9,000 in charitable donations to the organisation.

"St Mungo's works hard 365 days a year to tackle the causes and consequences of homelessness. Our work enables vulnerable and excluded people to lead full, independent lives by helping them find a place to live, develop their skills through education and training programmes, and improve their mental and physical health. The commitment of our supporters is critical and we would like to thank everyone at Ofcom for their continuing support of St Mungo's."

Charles Fraser
Chief Executive
St Mungo's

The Ofcom Board

1. David Currie

David Currie is the Non-Executive Chairman of Ofcom and also a Member of Ofcom's Audit and Remuneration Committees and Chairman of the Nominations Committee. He was Dean of Cass Business School at City University from January 2001 to 8 April 2007. 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 is Chairman of Independent Audit and a Board member of the Dubai Financial Services Authority. He sits on the cross-benches in the House of Lords as Lord Currie of Marylebone.

2. Philip Graf CBE

Philip Graf is the Non-Executive Deputy Chairman of Ofcom. He is also a Member of Ofcom's Remuneration, Nominations and Audit Committees and Chair of Ofcom's Content Board and Radio Licensing Committee. He joined the Liverpool Daily Post and Echo in 1983, which became Trinity International Holdings in 1985. He subsequently became Chief Executive in 1993 and was appointed Chief Executive of Trinity Mirror Group when the company merged with the Mirror Group in 1999 – a position he held until February 2003. He is a former Chair of the Press Standards Board of Finance and of the Broadband Stakeholder Group. He is currently a partner at Praesta Partners LLP and a Non-Executive Director of Archant Limited.

3. Ed Richards

Ed Richards was appointed Ofcom Chief Executive on 5 October 2006. He was previously Ofcom's Chief Operating Officer. Prior to joining Ofcom, he was Senior Policy Advisor to the Prime Minister for media, telecoms, internet and e-govt. Before that he was Controller of Corporate Strategy at the BBC. He also worked in consulting at London Economics Ltd, as an advisor to Gordon Brown MP and began his career as a researcher with Diverse Production Ltd, where he worked on programmes for Channel 4. He currently serves as a Non-Executive Board Member of the Donmar Warehouse Theatre.

4. Millie Banerjee CBE

Millie Banerjee is a Non-Executive Member of Ofcom. She is also Chair of Ofcom's Remuneration Committee and a Member of Ofcom's Content Board and Nominations Committee. She is the Chair of Postwatch, the Chair of Carnegie UK Trust and a Member of the Advisory Board of Tanaka Imperial College Business School.

- Stephen A Carter CBE resigned from the Board on 31 July 2006.
- Kip Meek resigned from the Board on 31 October 2006.
- Sean Williams resigned from the Board on 31 March 2007.

5. Ian Hargreaves

Ian Hargreaves was appointed as an Executive Member of Ofcom on 1 March 2007; he had previously been a Non-Executive Member of Ofcom since December 2002. He has oversight of Ofcom's Legal, International, Nations & Regions and Secretariat functions. He was Director of Corporate and Public Affairs at BAA plc from January 2003 to October 2006 and is Professor of Journalism at Cardiff University.

6. Stephanie Liston

Stephanie Liston is a Non-Executive Member of Ofcom and a Member of Ofcom's Audit Committee. A qualified lawyer in the US and the UK, she has more than 17 years of experience advising on strategic regulatory issues, contractural negotiations and commercial transactions in the US, UK and international communications and technology sector. Stephanie is also co-founder and Chair of Women in Telecoms and Technology and Managing Director, Peasenhall Ventures Ltd.

7. Sara Nathan

Sara Nathan is a Non-Executive Member of Ofcom and a Member of Ofcom's Remuneration Committee. She serves as a member of the Judicial Appointments Commission and chairs the Animal Procedures Committee for the Home Office. She is also on the Regulatory Decisions Committee of the Financial Services Authority and is a Member of ICSTIS, the premium rate telephone service regulator.

8. Philip Rutnam

Philip Rutnam joined Ofcom in May 2003 and was appointed as an Executive Member of Ofcom on 1 April 2007. He has specific responsibilities for the development of Ofcom's spectrum policy. A former senior Treasury official, his career includes two years in corporate finance at Morgan Stanley in Hong Kong, a period as Private Secretary to the Financial Secretary at the Treasury and responsibility for the Treasury's interest in business and enterprise. He was also previously UK alternate director at the European Investment Bank.

Corporate Governance

As an independent statutory corporation without shareholders, established under the Office of Communications Act 2002, Ofcom is not subject to the Combined Code on Corporate Governance published by the UK Listing Authority.

However, its principles provide a useful benchmark for all bodies wishing to make a statement about their corporate governance performance.

Ofcom has complied with the main principles of the Combined Code during the period 1 April 2006 to 31 March 2007. To this end, Ofcom will continue to adopt the principles of the Code where it is either capable of doing so, or it is appropriate to do so, given its status as an independent statutory corporation.

Board Members' remuneration

Details of Members' remuneration are set out on pages 95 to 101.

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 up to five years. Executive Members to the Board are appointed by the Chairman and all of the independent Non-Executive Members. Members' biographical details are set out on pages 76 and 77.

Ofcom has adopted a unitary Board model. The Board currently consists of five Non-Executive Members including the Chairman, who is responsible for running the Board, and three Executive Members including the Chief Executive. During the period from 1 August 2006 to 4 October 2006 David Currie acted as Executive Chairman. 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 adopting the principles of 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. Millie Banerjee 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 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 work of both the Board and Executive is informed by the contributions of a number of advisory bodies;
- 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; and
- 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 undertook an evaluation of its performance during February 2007 utilising the services of external consultants, Egon Zehnder.

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; and
- Ofcom is operating in accordance with the highest standards of corporate governance.

Ofcom's Annual Report is sent to the Department of Trade and Industry which lays 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 during the year were:

- Stephen A Carter (Chair, resigned 31/07/06)
- Ed Richards (Chair, since 05/10/06)
- Janet Campbell (appointed 01/04/06)
- Rona Chester
- David Currie (Chair, from 01/08/06 to 04/10/06)
- Ian Hargreaves (appointed 01/03/07)
- Graham Howell
- Peter Ingram
- Kip Meek (resigned 31/10/06)
- Dominic Morris CBE
- Peter Phillips
- Philip Rutnam
- Tim Suter
- Sean Williams (resigned 31/03/07)

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 is set out in the report from the Chairman of the Content Board on pages 14 to 16. The Content Board meets monthly and held 11 meetings during the year. The Members of the Content Board during the year were:

- Philip Graf CBE (Chair)
- Sara Nathan (Deputy Chair, retired 30/06/06)
- Adam Singer (Deputy Chair, re-appointed 01/07/06)
- Richard Ayre (appointed 01/08/06)
- Sue Balsom (re-appointed 01/07/06)
- Chris Banatvala (appointed 23/01/07)
- Millie Banerjee CBE (appointed 01/07/06)
- Floella Benjamin OBE (retired 30/06/06)

- Kevin Carey (retired 30/06/06)
- Pam Giddy (re-appointed 01/07/06)
- Anthony Lilley (appointed 01/09/06)
- Mathew MacIver (retired 30/06/06)
- Kip Meek (resigned 31/10/06)
- Dr. Paul Moore (appointed 01/08/06)
- Tim Suter
- Joyce Taylor (appointed 01/09/06)
- Kath Worrall (Chair of Fairness Committee, re-appointed 01/07/06)

Non-Executive Members of the Content Board were appointed for an initial extended period of three years and two months until June 2006. A recruitment and re-application process for the appointment of Members to the Content Board concluded in July 2006. Chris Banatvala 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. The members of the Audit Committee during the year were:

- Peter Teague (Chair)
- David Currie
- Philip Graf CBE
- Stephanie Liston (appointed 12/09/06)
- Sara Nathan (until 12/09/06)

Peter Teague, the external independent Chair, is a qualified chartered accountant and 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 the 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, and meets with the Ofcom Board at least once a year.

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;
- monitor and review, on behalf of the Board, the effectiveness of the systems of internal control and risk management;
- monitor and review, on behalf of the Board, the integrity, quality and reliability of the financial statements, Annual Plan and Accounts;
- continually review the scope and results of both internal and external audits; and
- approve the financial authority framework.

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.

Peter Teague is paid £5,000 per annum for the provision of his services as Chair of the Audit Committee. He received an additional £5,000 for overseeing an independent monitoring of Project Unify.

For the period during the year when David Currie was Executive Chairman he did not attend any Audit Committee meeting.

The Remuneration Committee

The Remuneration Committee consists of four Non-Executive Members of the Ofcom Board. (The Non-Executive membership was increased from three to four with effect from September 2006.) The members of the Remuneration Committee during the year were:

- Millie Banerjee (Chair)
- David Currie
- Philip Graf
- Sara Nathan (appointed 01/09/06)

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 also advises Ofcom on the terms and conditions of the part-time members of the Content Board, the Consumer Panel, the Advisory Committee for Older and Disabled Persons and the four Advisory Committees for the Nations and Regions.

The Committee oversees the process for determining the terms and conditions of all other Ofcom colleagues. The Committee also oversees and decides upon issues relating to the pension arrangements established by Ofcom for all Ofcom colleagues.

The Remuneration Committee meets as and when required. During the period the Committee met six times. 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 3 to the Remuneration Report. Should it be necessary for Ofcom to consider any aspect of Non-Executive Member remuneration a Non-Executive Member Remuneration Committee has been established consisting of the Chief Executive, the HR Director and the Corporation Secretary, which will meet and report directly to the Secretaries of State as appropriate. Consequently, no Board Member is involved in the setting of his or her own remuneration.

For the period during the year when David Currie was Executive Chairman he did not attend any meeting of the Remuneration Committee.

The Remuneration Report on pages 95 to 101 sets out Ofcom's application of the relevant principles of the Combined Code.

Nominations Committee

The Nominations Committee comprises three Non-Executive Members of the Ofcom Board. It was established in 2007 and its members are:

- David Currie (Chair)
- Millie Banerjee
- Philip Graf

The Committee works with the Departments of Trade and Industry and Culture, Media and Sport on the process for selecting Non-Executive Members for the Ofcom Board and makes recommendations to all the Non-Executive Members of the Ofcom Board on Executive Member appointments. The Committee meets as and when required.

The Fairness Committee and Content Sanctions Committee

Both these committees are made up of members drawn from the Content Board. On occasions, the Content Sanctions Committee invites additional members from the Ofcom Board.

Both Committees have a permanent Chair who, during the period, was Sara Nathan (until 30/06/06) and Kath Worrall (appointed 01/07/06) for the Fairness Committee, and Philip Graf for the Content Sanctions Committee.

The Committees meet as and when required and details of their activities can be found on pages 68 and 69.

Radio Licensing Committee

Philip Graf chairs this committee. Its membership consists of two permanent Non-Executive Members of the Content Board (Matthew MacIver (until 30/06/06), Joyce Taylor (appointed 01/09/06) and Pam Giddy, and four Ofcom colleagues. It meets monthly and details of its activities can be found on page 38.

Non-Board Committees

The Consumer Panel

Section 16 of the Communications Act 2003 requires Ofcom to establish a 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. During the year the Members of the Consumer Panel were:

- Colette Bowe (Chair)
- Ruth Evans (Deputy Chair)
- Azeem Azhar (resigned 31/05/06)
- Fiona Ballantyne
- Roger Darlington
- Simon Gibson OBE
- Alan Horne (appointed 31/10/06; resigned 30/11/06)
- Graham Mather
- Kevin McLaughlin
- Jeremy Mitchell
- Kate O'Rourke
- Bob Twitchin
- Allan Williams

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.

Ofcom and the Consumer Panel have jointly agreed a Memorandum of Understanding. This memorandum establishes the principles that both bodies agree to adopt in their relations and dealings with each other and affirms the independence of the Panel from Ofcom.

The Consumer Panel engaged in four major areas of work during the year: it helped Ofcom to shape its consumer policy; continued to press Government, Digital UK and Ofcom for the needs of vulnerable people to be recognised and effectively addressed in digital switchover; secured interest in the adoption of the Consumer Interest Toolkit from a range of UK consumer bodies and regulators and within the European Commission; and worked to secure support for the model of consumer representation embodied by the Consumer Panel through debates on the legislative basis of Consumer Voice.

The Consumer Panel gave advice to Ofcom during the year on the following subjects:

- Self- and co-regulation;
- Digital Dividend Review;
- Dispute between Virgin Media and BSkyB;
- Consumer priorities;
- Ofcom's Annual Plan;
- Next Generation Access;
- Nations and Regions policy;
- Digital switchover;
- Telephone numbering; and
- Mis-selling of fixed-line telecoms services.

The Consumer Panel published its 2006/7 Annual Report on its activities on 25 June 2007. The Report and further details of the Panel's work can be found online at **www.ofcomconsumerpanel.org.uk**.

The Ofcom Spectrum Advisory Board

The Ofcom Spectrum Advisory Board (OSAB) was established on 19 May 2004 to provide independent advice to Ofcom on strategic spectrum management issues. OSAB meets five to six times a year. During the year the Members of OSAB were:

- Sir David Brown (Chair)
- Professor Martin Cave
- Dr David Cleevely
- Professor Leela Damodaran
- Professor Barry Evans
- Debbie Gillatt
- Stephen Lowe
- Phillipa Marks
- Professor Mike Short
- Andrew Sleigh
- Professor Will Stewart
- Stephen Temple CBE
- Dr Gary Tonge
- Dr Walter Tuttlebee

OSAB has advised Ofcom this year on a number of strategic spectrum issues including:

- Devising a suitable set of metrics to track the success of new spectrum management concepts;
- Providing input and guidance to the digital dividend review (DDR) programme;
- Helping shape the Ofcom research and development agenda;
- Discussing a wide range of issues associated with the use of spectrum for satellite applications;
- Looking at international issues including suggestions from the EC for a single European spectrum regulatory body;
- Assisting Ofcom in its planning work associated with the 2012 Olympics;
- Looking at whether a special case should be made for Mobile TV; and
- Considering how transport infrastructures might evolve and the role that wireless would play.

In addition, a theme underlying much of OSAB's discussion during the year was disruptive technologies. OSAB discussed a range of issues associated with these at its brainstorming event and made disruption the focus of two meetings it held with the Ofcom Board. OSAB's Annual Report covering its activities during its third year was published on 3 May 2007 and can be found on the OSAB website at **www.osab.org.uk**

The Advisory Committee for Older and Disabled Persons

Section 21(1) of the Communications Act 2003 requires Ofcom to establish a committee to advise Ofcom on issues in the communications sector that particularly impact on older and disabled people. The Committee meets at least four times a year. During the year the Members of the Committee were:

- Mike Whitlam CBE (Chair: April-May 06 and from Jan 07)
- Lydia Thomas (Deputy Chair and Chair from May-Dec 06; resigned 09/03/07)
- Professor Janet Askham
- Rt Hon Lord Carter (resigned 01/12/06)
- Simon Cramp
- Gareth Davies (retired 31/03/07)
- Caroline Ellis
- Baroness Greengross OBE (resigned 30/06/06)
- Fred Heddell (retired 31/03/07)
- Jonathan Kaye
- Suneel Shivdasani
- Ross Trotter
- John Welsman

Four new members of the Committee were appointed from 01/04/07: Laura Muir; Robert Peckford; David Sindall and Nicholas Young.

In its third year, the Committee has continued to advise Ofcom on issues around access to communications for older and disabled people. It has provided specific advice to Ofcom on its consultations on Accessible Television and the Digital Dividend Review and has continued to advise Ofcom across the range of its other responsibilities, including Ofcom's Disability Equality Scheme and the Consumer Policy programme.

A particular focus during the year has been on issues relating to digital switchover. During the year the Committee has worked closely with the Government and Digital UK's Consumer Expert group on digital switchover issues and jointly commissioned a research project with Digital UK to explore the attitudes, understanding and experiences of under-served consumers towards digital television and also digital switchover, which was published in June 2007.

The Advisory Committees for the Nations and Regions

Section 20 of the Communications Act 2003 requires Ofcom to establish Advisory Committees for the different Nations in the United Kingdom. The function of each Committee is to provide advice to Ofcom about the interests and opinions, in relation to communications matters, of people living in the part of the UK for which the Committee has been established. Committees were established for the English Regions, Northern Ireland, Scotland and Wales during the early part of 2004.

Each Committee meets at least four times a year and they have each advised Ofcom on proposed Ofcom policy as it may impact on the Nations and Regions:

- the implications for each nation of the first Ofcom Communications Market: Nations & Regions Report which highlighted the availability and take-up of digital communications services throughout the UK;
- the progress that is being made towards digital switchover and the arrangements for providing assistance to those who might need it;
- the development of Ofcom's consumer policy and enforcement initiatives including the Consumer Experience research report;
- the proposals for the use of the analogue television spectrum that will be freed up by digital switchover included in Ofcom's Digital Dividend Review; and
- the report on media literacy amongst people in the Nations and Regions and proposals for the establishment of media literacy networks in each of the nations.

The membership of each Committee is as follows:

English Regions

- Suzy Brain England (Chair)
- Gita Conn OBE JP
- Sue Farrington
- John Hooper CBE
- Derek Inman
- Don Jayasuriya
- Azam Mamujee
- Jessica Mann
- Andrew Norton (resigned 28/01/07)
- Anne Scorer
- Alan Wright

Scotland

- Joyce Taylor (Chair, resigned 31/08/06)
- James Hunter (resigned 27/02/07)
- Andrew Muir
- Susan Neal
- Thomas Prag (Chair, since 06/09/06)
- Selma Rahman
- Julie Ramage
- Martin Robertson
- Professor Philip Schlesinger (re-appointed 01/04/07)

Two new members of the Committee were appointed from 01/04/07: Andrew Anderson and Laura Alexander.

Northern Ireland

- Professor R. Wallace Ewart OBE (Chair)
- Sinead Boyle
- Carol Burrows
- Brian Collins
- Mags Connolly (resigned 21/05/06)
- Dr David Elliott
- Michael McKernan
- Jane Morrice
- Una Murphy
- Dr Leslie Orr
- Professor Gerard Parr
- Glyn Roberts

Wales

- Professor Tony Davies (Chair)
- Julie Barton (appointed 01/03/07)
- Charlie Bass (appointed 01/03/07)
- Nick Bennett (re-appointed 01/03/07)
- Ian Clarke
- Michael Clarke (retired 28/02/07)
- John Davies (appointed 01/03/07)
- Mark Elliott (appointed 01/03/07)
- Dr Kevin Fitzpatrick (resigned 06/09/06)
- Julie James (retired 28/02/07)
- Glyn Mathias (appointed 01/03/07)
- Gary Partridge (appointed 01/03/07)
- Elizabeth Williams (retired 28/02/07)

All Members of Ofcom's Non-Board Committees (with the exception of the Ofcom Spectrum Advisory Group) are remunerated for the provision of their services, based on a daily variable rate.

Public & 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. The lists below are not a complete summary of all Parliamentary and public appearances.

David Currie

Briefings to Parliament
April 2006 – March 2007

May 2006
Joint Session of the House of Commons Trade and Industry and Culture, Media and Sport Select Committees: Ofcom's Annual Plan 2006/7

November 2006
Ofcom Annual Lecture

January 2007
House of Lords Regulators' Committee.

January 2007
Oral Evidence to ad hoc Select Committee on Regulators

Various meetings with Parliamentarians

Key public speeches
April 2006 – March 2007

November 2006
Ofcom Annual Lecture

November 2006
ECTA Regulatory Conference

February 2007
Communications Management Association Conference

Philip Graf

Briefings to Parliament
April 2006 – March 2007

October 2006
House of Commons Culture, Media and Sport Select Committee - Inquiry: New Media and the Creative Industries

Key public speeches
April 2006 – March 2007

July 2006
AOL Parliamentary Reception

September 2006
Royal Television Society

March 2007
Community FM Conference

Stephen A Carter (resigned 31/07/06)

Briefings to Parliament
April 2006 – July 2006

May 2006
Joint Session of the House of Commons Trade and Industry and Culture, Media and Sport Select Committees: Ofcom Annual Plan 2006/7

Ed Richards (appointed 05/10/06)

Briefings to Parliament
October 2006 – March 2007

January 2007
House of Lords Regulators' Committee

Various meetings with Parliamentarians

Key public speeches
April 2006 – March 2007

November 2006
FT World Communications Conference – Speech: Network & Convergence: A Regulator's Perspective

November 2006
Ofcom's International Conference

January 2007
IPPR Oxford Media Convention

March 2007
ISBA Annual Conference

Impact Assessments Undertaken

1 April 2006 – 31 March 2007

Ofcom has duties under Section 7 of the Communications Act to carry out impact assessments for important proposals, and to list all assessments carried out, and decisions relating to them, in its Annual Report.

The following tables list for 2006/7:

- **the Ofcom statements published in which the earlier consultation document contained an impact assessment; and**
- **other consultation documents which contained an impact assessment, but where no statement was published within the year.**

Ofcom statements published in 2006/7 in which the earlier consultation included an impact assessment

Award of available spectrum: 412-414 MHz paired with 422-424 MHz

The replicability of BT's regulated retail business services and the regulation of business retail markets

Pay TV channels on multiplexes B, C and D - Removal of the 'free to air only' requirement

NTS: A Way Forward

Providing citizens and consumers with improved information about Number Translation Services and Premium Rate Services

Review of the cross-promotion rules

Conditions regulating Premium Rate Services

Review of the Ofcom Metering and Billing Scheme

Statement on the making of regulations in connection with the award of 412-414 MHz paired with 422-424 MHz

The future licensing of DAB digital radio

Wireless Telegraphy Act licence charges amendments

Telephone Numbering Safeguarding the future of numbers

Community Audio Distribution Systems

End to end connectivity

Increasing the supply of mobile numbers

Television access services review

Statement concerning the update of Wireless Telegraphy licensing procedures and criteria

The conditions regulating premium rate services

Summary of responses to consultation on issues relating to product placement

Review of the television production sector

Channel Sponsorship: A consultation on the sponsorship of television channels and radio stations

Wireless Telegraphy Licence Charges (Amendment) Regulations - Relating to Ship Radio, Ship Portable Radio and Amateur Radio licences

Making Spectrum Available in the 71-76 GHz & 81-86 GHz Bands: Statement on Ofcom provisions for a light licensed approach for broadband fixed wireless systems in the higher millimetre wave bands

BT Public Call Boxes - Consent to be given to BT under Universal Service Condition 3

Television Advertising of Food and Drink Products to Children

Higher power limits for licence-exempt devices

Statement on the Wireless Telegraphy (Exemption) (Amendment) Regulations 2006

Switchover-related changes to DTT Licences

Broadband migrations: enabling consumer choice

Broadcast Appeals for Donations to Make Programmes or Fund Services

Award of available spectrum: 1785 - 1805 MHz

Business Radio Trading & Liberalisation

Modifications to spectrum pricing

Radio Restricted Services and 55 to 68 MHz

Ofcom consultations published in 2006/7, which included an impact assessment and where no statement has yet been published

Award of available spectrum: 872-876 MHz paired with 917-921 MHz

Spectrum Usage Rights: Technology and usage neutral access to the radio spectrum

Regulatory financial reporting obligations on BT Taking a fresh view - second half

Award of available spectrum: 10 GHz, 28 GHz, 32 GHz and 40 GHz

Wireless Telegraphy Licence Exemption

Future pricing of spectrum used for terrestrial broadcasting

Review of General Condition 18 – Number portability

Review of the wholesale broadband access markets 2006/07

Self-help TV relays and digital switchover

Award of available spectrum: 2500-2690 MHz, 2010-2025 MHz and 2290-2300 MHz

Digital Dividend Review

Regulatory financial reporting obligations on BT

Protecting consumers from mis-selling of telecommunications services

Raising confidence in telephone numbers

The setting of access-related conditions upon Top Up TV Limited

WRC-07 agenda item 1.4

Proposal to make the Radio Frequency Identification Equipment (Exemption) (Amendment) Regulations 2007

BT Public Call Boxes Consent for non-uniform charging for geographic tariffing trials

Amendment to charge control on Mobile Network Operators

Award of available spectrum: 872-876 MHz paired with 917-921 MHz

Regulatory financial reporting obligations on BT Taking a fresh view - second half

Award of available spectrum: 10 GHz, 28 GHz, 32 GHz and 40 GHz

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 compliance with the terms of the Financial Memorandum issued by the Secretaries of State. 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

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofcom's policies, aims and objectives, while safeguarding the public funds and Ofcom's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and 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

The 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 based on an ongoing process designed to:

- identify and prioritise risks to the achievement of Ofcom's policies, aims and objectives;
- evaluate the likelihood of those risks being realised and their impact should they be realised;
- manage those risks efficiently, effectively and economically; and
- integrate risk management into Ofcom's wider set of management processes.

The system of internal control based on the above objectives has been in place in Ofcom for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts and accords with Treasury guidance.

Capacity to handle risk

Ofcom has developed an effective risk management strategy 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; and
- 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.

Ofcom recognises, however, that organisational risk tolerance will vary dependent on the circumstances. Ofcom remains highly risk averse in certain areas of its core operational activities but will tolerate, or even encourage, greater risk-taking in other, more policy-focused areas in order to achieve beneficial changes for citizens and consumers. This acceptance of a higher level of risk does not, of course, override the need for a full evaluation of such risk before such activities are undertaken, nor override the need to take appropriate actions to manage risk effectively within the tolerances adopted.

Ofcom has therefore developed appropriate processes for the systematic identification, evaluation and control of risk and has further enhanced these in 2006/7.

The risk and control framework

Executive Committee role

Under Ofcom's risk management arrangements the Executive Committee has a key role in managing Ofcom's risk profile and considering the main risks which might prevent achievement of its policies, aims and objectives. The Committee meets weekly and is the most senior internal management committee of Ofcom.

All members of the Executive Committee are committed to undertake regular reviews of the major areas of risk for which they are responsible and to work with their teams to ensure that all Ofcom colleagues are able to identify and highlight risks attached to their areas of activity and to take appropriate action to manage such identified risks.

This identification process is intended to establish the priority policy and operational risks which could affect Ofcom's ability to deliver its Annual Plan objectives. Actions to address priority risks are reviewed by the Executive Committee on a monthly basis and, on a quarterly basis, the list of priority risks is reviewed to assess its continuing relevance with risks added or removed as appropriate.

In addition, individual risk registers have been maintained, in an appropriate form, for each functional area within the organisation. Members of the Executive Committee are responsible for managing the risks in their areas. They must do so in a manner in keeping with Ofcom's overall tolerance of risk.

As part of the annual planning process carried out in relation to 2007/8, all projects have been assigned a risk ranking to help prioritise Ofcom's forthcoming work. All project managers are required to identify risks attached to their projects and to put in place measures to manage such identified risks, and a section within decision papers is designed to make key risks and their management visible to decision makers.

The Directorate of Planning and Development is responsible for the overall co-ordination of the risk identification and assessment process and works with the Executive Committee and the project teams on risk identification and management.

Ofcom's profile of prioritised risks is reviewed annually following the business planning cycle.

Risk management reporting and reviews

Actions identified, implemented and embedded into Ofcom include:

- a weekly report by the Communications Director and Director of the Chief Executive's office of current concerns in terms of stakeholder relations;
- a monthly Management Information report circulated to all members of the Executive Committee which incorporates:
  - the register of priority risks updated by the Executive Committee risk owners. Each month this is reviewed by the Executive Committee to help monitor risks at a corporate level and an individual priority risk is highlighted to give committee members an opportunity to further consider the adequacy of the risk management actions being taken; and
  - exception-based reporting of other high and medium level risk status projects across the organisation, litigation risks, financial and other operational risks.
- a review at each meeting of the Audit Committee of Ofcom's litigation risks and security risks. The Committee annually reviews Ofcom's financial statements and committee members regularly receive Ofcom's monthly management information pack;
- an annual risk review to analyse the adequacy of the risk identification and monitoring process, based on the Government's Risk Management Assessment Framework;
- an annual review and discussion of internal controls by the Board with the Chairman of the Audit Committee; and
- the carrying out of impact assessments (as required by the Communications Act 2003) designed to identify, *inter alia*, the risks attached to proposed policies to be introduced by Ofcom.

Integrated approach to risk management

Risk management processes, set out in a risk management policy document incorporating risk assessment criteria, are integrated into the project management system for policy projects. Other aspects of the integrated approach are set out below:

- colleagues' capacity to handle risk is reinforced by face to face risk management briefings for management teams in policy groups and by the continuing focus of management review boards on what could prevent delivery of planned outputs or achievement of policy or operational outcomes;
- application of Treasury management policy and procedures aligned with the risk management policy;
- appropriate controls on the delegated authorities from the Board to colleagues both to agree policy decisions and to commit to expenditure;
- an internal audit plan agreed annually between the Audit Committee and the internal auditors with regular reviews by the internal auditors of the appropriateness of Ofcom's system of internal controls together with recommendations for improvement;
- the maintenance of a 'whistle-blowing' or 'protected disclosure' policy to enable Ofcom colleagues to communicate concerns to an independent member of the Executive Committee;
- the operation of a security policy dealing with all aspects of security including personal, document and IT; and
- a Health and Safety Policy including required practices for risk assessment and management.

Review of effectiveness

As Accountable Officer, I 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 executive managers within Ofcom who have responsibility for the development and maintenance of the internal control framework, the work of the internal auditors and comments made by the external auditors in their management letter and other reports.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is as follows:

The Board

The Board has overall responsibility for monitoring the effectiveness of Ofcom's system of internal controls and receives regular reports from the Audit Committee.

The Audit Committee

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 with direct access to the Chairman of Ofcom. The Audit Committee reviews the effectiveness of the risk management process. It meets not less than three times each year.

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.

Internal Audit

The internal audit function was outsourced to KPMG in November 2003 and re-tendered and won by KPMG in 2006. It carries out its work in accordance with the Internal Audit plan that is approved by the Audit Committee and which is designed to allow internal audit to make a statement on the adequacy and effectiveness of Ofcom's risk management, governance and control processes for the year.

The Audit Committee receives regular reports from internal audit; these reports concluded in the year under review that, based on the work undertaken, Ofcom has a satisfactory system of risk management, governance and control.

Annual risk review

A number of recommendations arising from the risk review carried out in the first half of 2006/7 were addressed during the year, enhancing Ofcom's risk profile and processes. These enhancements included:

- greater contingency planning across a range of areas;
- development of a three-year strategic framework to guide our policy work;
- through the 2007/8 annual planning process, prioritisation of competing areas of work, to match Ofcom's year on year reduction in its budget; and
- greater focus on trends in consumer complaints as an indicator of risks of consumer detriment. As a result more action has been taken to address underlying policy causes.

Other assurance mechanisms

A number of financial control processes have been maintained. The Finance department produces monthly management accounts which are reviewed by budget holders, the Executive Committee and Board on a monthly basis to identify departures from the original budget.

Ofcom re-forecasts its expenditure and outputs (primarily planned consultation documents and policy statements) on a quarterly basis to take into account changes in the work required to meet its strategic objectives and ensure that it operates within the financial targets of the Annual Plan.

The Annual Plan is prepared following consultation with stakeholders and a rigorous internal approach involving project managers, the Executive Committee and final approval by the Board.

Capital expenditure projects are approved on an individual basis through presentation of a business justification, risk assessment and discounted cash flow forecast to the Operations Board, and, where they exceed certain expenditure thresholds, the Executive Committee and the Board.

The first half of Ofcom's major IS renewal programme was completed in 2006/7 and is subject to review at a number of levels, including an independent assurance check provided by an external consultant with regard to the scoping, governance and implementation of the programme. Risks identified by this review are being managed through the project management office and steering committee.

Executive Committee members provide to the Accountable Officer a signed annual assurance statement in relation to their operation of internal controls for the major areas of risk they are responsible for.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place. It is my belief that there are satisfactory processes in place for identifying, evaluating and managing the significant risks faced by Ofcom.

Ed Richards
Chief Executive
2 July 2007

Remuneration Report

In preparing the Remuneration Report and establishing its policy the Board has given consideration to, and adopts 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 81.

Advisers

The Remuneration Committee takes advice and/or obtains services from the following external entities:

- Towers Perrin, on executive remuneration; and
- Allen & Overy 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.

Components of remuneration

The main components of the Executive Members' remuneration are:

Salary and flexible benefits

The basic salary for each Executive Member and 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 and senior manager.

Benefits in kind

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

Annual bonus

Each Executive Member and 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 25 per cent of salary depending upon the individual concerned. No element of bonus is pensionable.

The performance review period which attracts bonuses was amended in the preceding financial year such that the current performance review period ending 31 March 2007 consisted of 15 months. As a result bonuses included in the schedules reflect the amount payable for the performance review period from 1 January 2006 to 31 March 2007. These bonuses have been approved by the remuneration committee and accrued but not paid as at the year end.

Pension arrangements

Executive management

Each Executive Member and senior manager (with the exception of Dominic Morris and Chris Banatvala 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.

Dominic Morris is eligible to participate in the Ofcom Defined Benefit Pension Plan on comparable terms as applied when previously employed by the ITC. 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 Ofcom Plan Earnings Cap where appropriate. Dominic Morris receives additional benefits through the Plan in recognition of his earnings in excess of the cap.

Chris Banatvala is eligible to participate in the Ofcom Defined Benefit Pension Plan on comparable terms as applied when previously employed by the ITC. 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 Ofcom Plan Earnings Cap where appropriate.

Non-Executive Members

Part of the pension costs of David Currie were met by Ofcom in 2006/7 as outlined in the notes below. No other Non-Executive Member received a pension benefit from Ofcom during the year under review.

Details of remuneration for the Board, the Content Board and the Executive Committee, which have been audited by the NAO, are set out on pages 97 to 98.

Guidance to the remuneration schedules

These schedules refer to remuneration during the financial year. The schedules reflect remuneration for that part of the year during which individuals were either providing services to, or Executive Members of, the Board, Content Board or the Executive Committee. Where individuals are members of more than one Board/Committee, as set out on pages 79 to 82, they appear only once in the remuneration schedules. The numbered points against the names of individuals refer to the numbered points set out on pages 99 and 100.

Ofcom Board Remuneration 2006/7

Name	Role		Total remuneration £	Pension entitlement/ allowance £	Flexible benefits allowance £	Benefits in kind £	Bonus £	Salary £
Millie Banerjee	Non-Executive Member	(3-4)	53,293			622		52,671
Stephen Carter	Chief Executive (until 31/07/06)	(5,13-16)	132,167	25,000	6,606	561		100,000
David Currie	Chairman	(1-4)	224,125	29,208		392		194,525
Philip Graf	Deputy Chairman	(3-4)	103,141			616		102,525
Ian Hargreaves	Senior Partner	(3-4,8,13-16)	62,229	2,116	923	372		58,818
Stephanie Liston	Non-Executive Member	(3-4)	41,682			672		41,010
Kip Meek	Chief Policy Partner	(7,13-16)	176,588	27,256	11,540	1,511		136,281
Sara Nathan	Non-Executive Member	(3-4)	49,899			680		49,219
Ed Richards	Chief Executive (since 05/10/06)	(6,13-16)	392,343	50,557	19,953	2,355	66,692	252,786
Sean Williams	Partner, Competition	(9,13-16)	265,889	26,550	20,723	1,791	39,825	177,000
Total			**1,501,356**	**160,687**	**59,745**	**9,572**	**106,517**	**1,164,835**

Ofcom Content Board Remuneration 2006/7

Name	Role		Total remuneration £	Pension entitlement/ allowance £	Flexible benefits allowance £	Benefits in kind £	Bonus £	Salary £
Richard Ayre	Content Board Member	(3-4,11)	14,070			150		13,920
Chris Banatvala	Director of Standards	(12-16,18)	27,838	4,199	2,754	358	3,317	17,210
Sue Balsom	Content Board Member	(3-4)	23,075			672		22,403
Floella Benjamin	Content Board Member	(3-4,11)	5,411			168		5,243
Kevin Carey	Content Board Member	(3-4,11)	5,453			210		5,243
Pam Giddy	Content Board Member	(3-4)	23,075			672		22,403
Anthony Lilley	Content Board Member	(3-4,11)	12,516			336		12,180
Matthew MacIver	Content Board Member	(3-4,11)	5,411			168		5,243
Dr Paul Moore	Content Board Member	(3-4,11)	14,256			336		13,920
Adam Singer	Deputy Chairman	(3-4)	26,795			672		26,123
Tim Suter	Partner, Content & Standards	(13-16)	255,272	25,436	21,435	672	38,154	169,575
Joyce Taylor	Content Board Member	(3-4,11)	12,516			336		12,180
Kath Worrall	Content Board Member and Chair, Fairness Committee	(3-4)	27,809			186		27,623
Total			**453,497**	**29,635**	**24,189**	**4,936**	**41,471**	**353,266**

Ofcom Executive Committee Remuneration 2006/7

Name	Role		Total remuneration £	Pension entitlement/ allowance £	Flexible benefits allowance £	Benefits in kind £	Bonus £	Salary £
Janet Campbell	HR Director	(13-16)	156,854	13,500	15,000	1,791	14,063	112,500
Rona Chester	Finance Director	(13-16)	206,208	19,875	15,000	1,567	37,266	132,500
Graham Howell	Secretary to the Corporation	(13-16)	199,754	21,525	15,000	1,791	17,938	143,500
Peter Ingram	Chief Technology Officer	(13-16)	260,088	31,500	25,000	1,791	44,297	157,500
Dominic Morris	Director of the CEO's Office	(13-17)	213,223	26,498	18,329	1,567	15,244	151,585
Peter Phillips	Partner, Strategy and Market Developments	(13-16)	257,901	26,250	20,000	1,651	35,000	175,000
Philip Rutnam	Partner, Competition and Strategic Resources	(10,13-16)	229,950	39,091			37,559	153,300
Total			**1,523,978**	**178,239**	**108,329**	**10,158**	**201,367**	**1,025,885**

Notes to the remuneration tables

1. The remuneration of the Chairman was set by the City University by whom the Chairman was employed directly during the year, in agreement with the DTI and DCMS. Ofcom reimbursed the City University for two-thirds of the Chairman's remuneration and for four-fifths of the Employer's National Insurance costs incurred. From 9 April 2007 the Chairman's remuneration is set directly by the DTI and DCMS following his departure from the City University. David Currie became Executive Chairman for the period 1 August 2006 to 4 October 2006 (inclusive) and an additional salary amount was paid to him by the City University (and reimbursed by Ofcom) to reflect the additional responsibilities he undertook for that period.

2. The Chairman is a member of the Universities Superannuation Scheme ('the scheme'); throughout the year Ofcom contributed (by way of reimbursement to the City University) four-fifths of the contributions made by the City University to the scheme for the Chairman. This reimbursement by Ofcom has ceased from 9 April 2007 now that the Chairman has left the employment of the City University.

3. The fees for all the Non-Executive Members 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 or, where appropriate, part of the year if the relevant Non-Executive Member or Content Board Member joined or retired from the Ofcom Board or Content Board during the year. With the exception of the Chairman, increases in the basic fees for the Non-Executive Members were agreed during the year with the DTI and the DCMS, so that the basic fee of the Non-Executive Members (with the exception of the Chairman, the Deputy Chairman, Sara Nathan and Millie Banerjee) was £41,010 per annum from 1 April 2006. Sara Nathan's basic fee was reduced from £52,428 to £41,010 with effect from 1 October 2006 following her retirement from the Content Board. Millie Banerjee's basic fee was increased with effect from 1 September 2006 to £52,428 per annum to reflect her extra time commitment to Ofcom as a result of her appointment to the Content Board. The fees for the Non-Executive Members and the fees of the Content Board Members are linked to the recommendations of the Senior Salaries Review Body for senior civil service pay. As a consequence of such linkage, the basic fees for all the Non-Executive Members and the Content Board Members were increased by 0.66 per cent from 1 April 2007. An additional fee of £5,000 per annum is paid to Non-Executive Members who chair a Board Committee.

4. The Non-Executive Members of the Ofcom Board and the Content Board Members receive no additional remuneration from Ofcom beyond their fees other than the entitlement to the provision of certain standard benefits, which are a digital package for domestic and business use and, for the Non-Executive Members of the Ofcom Board only, 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.

5. Stephen A Carter resigned from the Ofcom Board and as Chief Executive on 31 July 2006. The remuneration shown represents the part of the year during which Stephen A Carter was a Member of the Ofcom Board and Executive Committee. In addition to the remuneration shown, Stephen A Carter received remuneration (covering salary, pension allowance and flexible benefits) of £264,398 for an eight-month period representing remuneration due to him during his period of notice.

6. Ed Richards was appointed as Chief Executive on 5 October 2006.

7. Kip Meek resigned from the Ofcom Board, Content Board and from the Executive Committee

on 31 October 2006. The remuneration shown represents the part of the year during which Kip Meek was a Member of the Ofcom Board, Content Board and Executive Committee. In addition to the remuneration shown, Kip Meek received remuneration (covering salary, pension allowance and flexible benefits) of £125,335 for a five-month period representing remuneration due to him during his period of notice.

8. Ian Hargreaves joined the Ofcom Board as an Executive Member on 1 March 2007; the table shows fees payable to Ian Hargreaves as a Non-Executive Member until 28 February 2007 and remuneration payable to Ian Hargreaves as an Executive Member from 1 March 2007.

9. Sean Williams resigned from the Ofcom Board with effect from 31 March 2007.

10. Philip Rutnam was on secondment to Ofcom from HM Treasury until 31 March 2007. His remuneration costs represent the amount reimbursed by Ofcom for his services during the period under review which included the charge levied by HM Treasury for his participation in the Principal Civil Service Pension Scheme. Philip Rutnam resigned from the Civil Service on 31 March 2007. He joined the Ofcom Board on 1 April 2007 and became a full-time Ofcom employee.

11. Floella Benjamin, Kevin Carey and Matthew MacIver retired from the Content Board on 30 June 2006. Sue Balsom, Pam Giddy, Adam Singer and Kath Worrall were reappointed to the Content Board from 1 July 2006. Richard Ayre and Dr Paul Moore joined the Content Board on 1 August 2006 and Anthony Lilley and Joyce Taylor joined the Content Board on 1 September 2006.

12. Chris Banatvala joined the Content Board on 23 January 2007. Chris Banatvala was employed by Ofcom for the whole period, however the remuneration shown represents the part of the year during which he was a Member of the Content Board.

13. 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 of basic salary paid as a pension allowance (with the exception of Dominic Morris and Chris Banatvala).

14. Base salary for all senior executives is reviewed annually on 1 April.

15. Each Ofcom Executive Member of the Ofcom Board or senior manager is able to benefit from life assurance, group income protection, a digital package for business and domestic use and the ability to undertake an annual health check. The value of group income protection and annual health checks have not been disclosed in the remuneration schedules because they are not treated by HM Revenue & Customs as a taxable emolument.

16. All Ofcom colleagues participate in a bonus scheme, 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 0-25 per cent. The performance review period which attracts bonuses was amended in the preceding financial year such that the current performance review period ending 31 March 2007 consisted of 15 months. As a result bonuses included in the schedules reflect the amount payable for the performance review period from 1 January 2006 to 31 March 2007. These bonuses have been approved by the remuneration committee and accrued but not paid as at the year end.

17. Dominic Morris is a member of the Ofcom Defined Benefit Pension Plan. A separate disclosure in relation to this plan has been made in the table below.

18. Chris Banatvala is a member of the Ofcom Defined Benefit Pension Plan. A separate disclosure for the part of the year during which he was a Member of the Content Board in relation to this plan has been made in the table below.

Executive disclosure for Defined Benefit pensions

The disclosures for defined benefit pensions for Dominic Morris and Chris Banatvala are shown in the table below.

The accrued pensions and transfer values for Dominic Morris and Chris Banatvala reflect the additional pension arising from a transfer-in of their benefits from their previous employer.

The transfer value of accrued pension represents the estimated 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 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 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 for a set time commitment to Ofcom of up to two days per week (with the exception of David Currie, Philip Graf and Millie Banerjee who currently commit up to four, three and two and a half days per week respectively). For the period during the year when he was Executive Chairman David Currie made himself available up to five days each week.

Disclosures for Defined Benefit pensions

Compensation from 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.

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 'gardening 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.

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
2 July 2007

Name	Accrued pension at 31 March 2007 £	Increase in pension over year £	Transfer value of accrued pension at 31 March 2007 £	Transfer value of accrued pension at 31 March 2006 £	Increase in transfer value less member's contributions £
Dominic Morris (17)	20,900	3,400	298,000	223,000	63,000
Chris Banatvala (18)	9,800	300	72,000	69,000	2,000

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

I certify that I have audited the financial statements of the Office of Communications for the year ended 31 March 2007 under the Office of Communications Act 2002. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as being audited.

Respective responsibilities of the Board, the Chief Executive and Auditor

The Board, and Chief Executive, as Accountable Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Office of Communications Act 2002 and the Secretaries of State for Trade and Industry and for Culture, Media and Sport directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with the relevant legal and regularity requirements and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and part of the Remuneration Report to be audited have been properly prepared in accordance with the Office of Communications Act 2002 and the Secretaries of State for Trade and Industry and for Culture, Media and Sport directions made thereunder.

I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Financial Performance, Foreword, The Ofcom Board, Corporate Governance and Board Committees sections, is consistent with the financial statements. I also report 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.

In addition, I report to you if the Office of Communications has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if the information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Office of Communications' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Office of Communications' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Office of Communications' 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, 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, of the state of the Office of Communications' affairs at 31 March 2007 and of its surplus, for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared 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;
- the information in the Annual Report, which comprises the Financial Performance, Foreword, The Ofcom Board, Corporate Governance and Board Committees sections, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
3 July 2007

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

Income and Expenditure Account

for the year ended 31 March 2007

	Notes	**Year ended 31 March 2007 £'000**	Year ended 31 March 2006 £'000
Income	2,3	**143,608**	156,020
Operating expenditure			
Staff costs	4	**(55,748)**	(49,841)
Other operating costs	6	**(69,427)**	(74,565)
Operating surplus		**18,433**	**31,614**
Exceptional credit/(charge)			
Future costs of vacant properties	7	**2,878**	(14)
Interest receivable		**1,697**	2,067
Interest payable	8	**(411)**	(1,044)
Other finance income		**–**	210
Other finance costs	18,25	**(491)**	(442)
Notional cost of capital credit	21	**1,073**	1,076
Surplus on ordinary activities before taxation		**23,179**	**33,467**
Taxation on interest receivable		**–**	211
Surplus on ordinary activities after taxation		**23,179**	**33,678**
Reversal of notional cost of capital credit	21	**(1,073)**	(1,076)
Surplus for financial year		**22,106**	**32,602**

The accounting policies and notes on pages 108 to 127 form part of these financial statements.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2007

	Notes	**Year ended 31 March 2007 £'000**	Year ended 31 March 2006 £'000
Surplus for year		**22,106**	32,602
Ofcom Defined Benefit Pension Plans			
Actual return less expected return on plan assets	25b	**(380)**	13,660
Experience gains (losses) on pension scheme liabilities	25b,c	**2,907**	(4,789)
Changes in assumptions underlying the present value of pension scheme liabilities	25b,c	**(2,128)**	(18,570)
Increase in unrecoverable surplus	25b,c	**(5,900)**	-
Total recognised gains for year		**16,605**	**22,903**

The accounting policies and notes on pages 108-127 form part of these financial statements.

Balance Sheet

as at 31 March 2007

	Notes	As at 31 March 2007 £'000	As at 31 March 2006 £'000
Fixed assets			
Intangible assets	9a	**8,294**	1,288
Tangible assets	9b	**20,965**	25,898
		29,259	**27,186**
Current assets			
Debtors	10	**7,537**	12,958
Cash at bank and in hand	11	**46,690**	53,782
		54,227	66,740
Creditors – amounts falling due within one year	13	**(54,901)**	(67,848)
Net current liabilities		**(674)**	**(1,108)**
Total assets less current liabilities		**28,585**	26,078
Creditors – amounts falling due after more than one year	14	**(70)**	(7,885)
Provisions for liabilities and charges	18	**(2,736)**	(13,037)
Net assets excluding pension asset and liability		**25,779**	5,156
Pension asset	12	**6,170**	10,200
Pension liability	12	**(909)**	(921)
Net assets including pension asset and liability	19	**31,040**	**14,435**
Reserves			
Income and expenditure account	19	**31,040**	14,435
		31,040	**14,435**

The accounting policies and notes on pages 108-127 form part of these financial statements.

These financial statements were approved by the Board on 19 June 2007.

David Currie
Chairman

Ed Richards
Chief Executive

Cash Flow Statement

for the year ended 31 March 2007

	Notes	**Year ended 31 March 2007 £'000**	Year ended 31 March 2006 £'000
Net cash inflow from operating activities	20	**6,258**	40,001
Returns on investment and servicing of finance			
Interest received		**1,642**	2,067
Interest paid	8	**(411)**	(1,044)
Net cash inflow for returns on investment and servicing of finance		**1,231**	1,023
Capital expenditure and financial investment			
Payments to acquire fixed assets		**(9,470)**	(7,705)
Proceeds from the disposal of fixed assets		**75**	3,492
Net cash outflow from capital expenditure and financial investment		**(9,395)**	(4,213)
Net cash (outflow)/ inflow before financing		**(1,906)**	36,811
Financing			
Loans repaid	15	**(5,186)**	(17,810)
Net cash outflow from financing		**(5,186)**	(17,810)
(Decrease) / increase in net cash in the year		**(7,092)**	19,001
Reconciliation of net cash flow to movements in net funds			
(Decrease)/ increase in cash in the year		**(7,092)**	19,001
Decrease in debt in the year	15	**5,186**	17,810
Opening net funds		**43,410**	6,599
Closing net funds		**41,504**	43,410

The accounting policies and notes on pages 108-127 form part of these financial statements.

Notes to the Accounts

for the year ended 31 March 2007

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 certain 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.

b) 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. Cash costs in excess of income received are classified as a debtor 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. 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.

Programme of spectrum awards

This income comprises grant-in-aid from the DTI to meet the costs of the programme of spectrum auctions projects. This income is matched against cash costs incurred within the agreed allocation. Grant-in-aid receipts in excess of spectrum auctions programme 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. Income in excess of Networks and services' cash costs and share of loan repayments is classified as deferred income on the balance sheet. Cash costs in excess of income received are classified as a debtor at the balance sheet date.

Broadcasting licence fees

Income from Broadcasting licence fees represents the amount invoiced to licensees and is accounted for on an accruals basis. Television licence fees in excess of £75,000 a year and Radio licence fees in excess of £5,000 a year are payable in monthly instalments. Television licence fees of less than £75,000 a year and Radio licence fees less than £5,000 a year are payable as an annual sum on the grant and on the anniversary of the licence. Income in excess of Broadcasting's cash costs and share of loan repayments is classified as deferred income on the balance sheet. Cash costs in excess of income received are classified as a debtor at the balance sheet date.

Application fees

One-off Broadcasting and Networks and services application fees are non-refundable and accordingly are recorded as income on receipt of the stakeholder application.

Other grant-in-aid

Grant-in-aid in respect of media literacy, *ex post* competition and public interest tests is accounted for in the period in which it is received. Amounts of grant-in-aid paid over in advance are included in creditors as payment on account at the balance sheet date. Cash costs in excess of income received are classified as a debtor at the balance sheet date.

Other income

Other income is accounted for on an accruals basis and is matched with the expenditure towards which it contributes.

Notes to the Accounts
for the year ended 31 March 2007

c) Receipts collected by Ofcom within the scope of Section 400 of the Communications Act 2003

Broadcasting Act Additional Payments and fines levied by Ofcom are remitted to the Consolidated Fund in accordance with Section 400 of the Communications Act 2003. Additionally, licence fees levied by Ofcom, arising from the issue or renewal of licences under the Wireless Telegraphy (WT) Acts are remitted to the DTI for payment to the Consolidated Fund.

No entries are made in these Financial Statements in respect of Section 400-related transactions except where payments and fees have been collected and are in Ofcom's main bank account at the balance sheet date. These are shown as due to the Consolidated Fund within Creditors due within one year.

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.

d) 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.

e) 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 2.2 per cent (2006: 2.2 per cent). Future rental income is only included in this calculation to the extent that it is reasonably certain.

f) Early retirement and future pensions costs

The Radiocommunications Agency and Oftel 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 discounted value of the annual amounts payable at the balance sheet. The actual amounts payable increase annually in accordance with PCSPS rules.

g) 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.

h) Fixed assets

Fixed assets are valued at cost or estimated replacement cost.

Intangible assets

In accordance with FRS 10, expenditure on computer software is capitalised to the extent that it is probable the asset will generate future economic benefits. The expenditure capitalised includes the costs of software applications and development and related licences fees.

Amortisation on capitalised development costs is charged to the income statement 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. The estimated useful life is three to five years.

Notes to the Accounts
for the year ended 31 March 2007

Tangible assets

In accordance with FRS 15, where land and buildings are revalued, professional valuations are obtained every five years, with interim valuations being made every three years. Where other fixed assets are revalued, on the grounds of materiality, Ofcom uses the Office of National Statistics indices.

Assets under construction comprise costs incurred in developing computer systems which will replace some of the current applications. Expenditure capitalised under this heading will be depreciated upon the asset being brought into use.

Assets 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
– Furniture	7 years
Office and Field Equipment	4 to 7 years
Computer Hardware	3 years
Motor Vehicles	5 years

i) Research and development

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

j) Pension costs

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

The Ofcom Defined Benefit Pension Plan provides benefits that are broadly equivalent to the PCSPS. Ofcom jointly participates with the Advertising Standards Authority in the scheme. The second scheme is the Ofcom (Former ITC) Staff Pension Plan where Ofcom is one of four participating employers. The assets of this scheme are held in a separately administered trust. FRS 17 (Accounting for Pension Scheme Liabilities) is followed and the net assets of the schemes are included in the balance sheet. The aggregate of the movement in the net assets of the two plans are shown in the Statement of Total Recognised Gains and Losses.

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.

k) 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.

l) 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

Notes to the Accounts

for the year ended 31 March 2007

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.

m) Tax

HM Revenue and Customs 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 rent arising or property expenditure from surplus property.

At the balance sheet date, Ofcom had £9.9m unutilised tax losses available for offset against future income that may be subject to Corporation Tax. These losses have arisen as a result of onerous lease provisions created as a result of properties inherited from predecessor bodies that were excess to requirements on formation of Ofcom. A deferred tax asset has not been recognised because there is insufficient evidence that it would be recoverable due to the uncertainty of future income streams.

n) 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 credit, reflecting the return on Ofcom's capital (in accordance with standard Government accounting practice), is made to the surplus before taxation. The charge is calculated in accordance with HM Treasury guidance at 3.5 per cent (2006: 3.5 per cent) on the carrying amount of all relevant assets less relevant liabilities. This is reversed out to determine the retained surplus on ordinary activities after taxation.

o) Segmental analysis

For transparency and to meet with the requirements of the Communications Act 2003 to provide information on costs and fees, note 2 to these accounts presents the Income and Expenditure account for the year under review by sector. As a public corporation, Ofcom is not required to present information in accordance with SSAP 25.

Notes to the Accounts

for the year ended 31 March 2007

2. Sectoral analysis

The analysis below refers to income by sector for the year ended 31 March 2007, together with attributable costs.

	Spectrum management £'000	Spectrum efficiency scheme £'000	Spectrum awards £'000	Networks & services £'000	Broadcasting £'000	Other income £'000	31 March 2007 Total £'000	31 March 2006 Total £'000
Revenue								
Licence and administration fees	-	-	-	25,339	30,752	-	56,091	59,396
Application fees	-	-	-	10	1,560	-	1,570	1,406
Grant-in-aid	71,396	6,540	1,714	-	-	2,990	82,640	93,339
Other income	-	-	-	-	-	2,000	2,000	2,605
Accrued/(Deferred) income	466	(176)	(4)	301	367	(163)	791	(1,114)
Total Revenue	**71,862**	**6,364**	**1,710**	**25,650**	**32,679**	**4,827**	**143,092**	**155,632**
Rental and other Income	287	-	-	92	119	18	516	388
Operating income	**72,149**	**6,364**	**1,710**	**25,742**	**32,798**	**4,845**	**143,608**	**156,020**
Interest receivable	942	-	-	301	390	64	1,697	2,067
Total income	**73,091**	**6,364**	**1,710**	**26,043**	**33,188**	**4,909**	**145,305**	**158,087**
Loan repayments	-	-	-	(2,476)	(2,710)	-	(5,186)	(17,810)
Interest payable	-	-	-	(196)	(215)	-	(411)	(1,044)
Net Operating Income	**73,091**	**6,364**	**1,710**	**23,371**	**30,263**	**4,909**	**139,708**	**139,233**
Onerous property and accrued rental income	453	-	-	144	187	30	814	(239)
Cash Income	**73,544**	**6,364**	**1,710**	**23,515**	**30,450**	**4,939**	**140,522**	**138,994**
Total costs	**(73,544)**	**(6,364)**	**(1,710)**	**(23,515)**	**(30,450)**	**(4,939)**	**(140,522)**	**(138,994)**
Surplus on cash cost basis	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Comparative costs by sector

Year ending 31 March 2007	**(73,544)**	**(6,364)**	**(1,710)**	**(23,515)**	**(30,450)**	**(4,939)**	**(140,522)**	
Year ending 31 March 2006	(69,337)	(6,675)	(1,117)	(27,984)	(28,101)	(5,780)	(138,994)	

Other income comprises:

- grant-in-aid funded competition enquiries;
- grant-in-aid funded media literacy work;
- commercial activities including spectrum interference work; and
- rental income from sub-letting vacant property space.

In accordance with Ofcom's accounting policies, as set out in note 1(b) to these accounts, grant-in-aid is accounted for in the period in which it is received.

Notes to the Accounts

for the year ended 31 March 2007

2. Sectoral analysis (continued)

The table on the previous page is prepared on an adjusted cash basis, which includes capital expenditure and actual contributions to pension schemes, but excludes depreciation.

Ofcom's licence and administrative fees are based on an estimate of cash costs in accordance with its Statement of Charging Principles. Where in the current year there is an excess of income over expenditure, the surplus will be rebated to the relevant stakeholders, in accordance with Ofcom's Statement of Charging Principles. Where in the current year there is an excess of expenditure over income, the deficit will be collected from the relevant stakeholders, in accordance with Ofcom's Statement of Charging Principles.

Reconciliation from Operating Expenditure to Cash Operating Expenditure

	Notes	2007 £'000	2006 £'000
Operating expenditure - income and expenditure account		**125,175**	124,406
Adjustments in respect of pension asset and liability		**1,640**	8,958
Vacant property costs	18	**7,645**	4,855
Capital expenditure less depreciation		**2,133**	547
Actual rent payments less expenditure		**2,795**	2,784
Other adjustments		**1,209**	936
Proceeds from fixed assets		**(75)**	(3,492)
Cash operating expenditure		**140,522**	138,994

Reconciliation from Cash Operating Expenditure to Actual Operating Out-turn

	2007 £'000	2006 £'000
Cash operating expenditure	**140,522**	138,994
Spectrum efficiency costs	**(6,364)**	(6,675)
Spectrum awards	**(1,710)**	(1,117)
Non-Operating Income	**(3,028)**	(2,216)
Actual Operating Costs Out-turn	**129,420**	128,986

Notes to the Accounts
for the year ended 31 March 2007

3. Income

	2007 £'000	2006 £'000
Grant-in-aid – DTI – Spectrum management	71,862	81,103
Grant-in-aid – DTI – Spectrum efficiency scheme	6,364	6,675
Grant-in-aid – DTI – Programme of spectrum auctions	1,710	1,117
Grant-in-aid – DTI – Competition law enforcement	2,204	3,063
Grant-in-aid – DCMS – Media literacy	445	559
Grant-in-aid – DTI – Public Interest Test	125	-
Total government grant-in-aid	**82,710**	**92,517**
Networks & services administrative fees	25,640	30,181
Networks & services application fees	10	30
Broadcasting Act licence fees	31,119	29,995
Broadcasting Act application fees	1,560	843
Rental income	461	354
Other income	2,108	2,100
Income	**143,608**	**156,020**

4. Staff costs

	2007 £'000	2006 £'000
Staff costs, including fees paid to Board Members, were:		
Salaries & benefits	43,668	41,034
National Insurance costs	5,034	4,858
Pension costs	5,863	2,840
Restructuring costs	1,183	1,109
Total Staff Costs	**55,748**	**49,841**

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 95 to 101.

Restructuring costs of £1.2m (2006: £1.1m) have been incurred in streamlining the organisation's operations function to meet the requirements of all the sectors regulated by Ofcom.

Notes to the Accounts
for the year ended 31 March 2007

5. Employee numbers

	2007	2006
The average number of employees was	**789**	762

As at 31 March 2007, Ofcom had 800 employees (2006: 776).

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

Employees seconded to Ofcom are excluded from the above figures.

6. Other operating costs

	2007 £'000	2006 £'000
Auditors remuneration – statutory audit fees	85	90
Professional fees	11,243	11,299
Outsourced services	8,712	4,405
Audience and consumer research	4,969	4,765
Technological research and spectrum efficiency projects	6,849	8,686
Seconded staff	491	589
Temporary staff and recruitment	4,628	3,087
Travel and subsistence	1,741	1,710
Information and technology costs	4,396	14,283
Administration and office expenses	11,619	10,175
Premises costs	7,608	8,494
(Profit)/Loss on disposal of fixed assets	(16)	17
Amortisation	1,356	859
Depreciation	5,746	6,106
Total Other Operating Costs	**69,427**	**74,565**
The costs, above, include:		
Operating leases – land and buildings	3,648	4,228
Operating leases – other	106	94

IT costs which were included in information and technology costs in previous years have been included in outsourced services in the current year.

Total other operating costs include £6.4m for spectrum efficiency projects (2006: £6.7m) and £1.7m of expenditure for the programme of spectrum award (2006: £1.1m).

7. Exceptional credit/(charge)

	2007 £'000	2006 £'000
Future costs of vacant properties	**2,878**	(14)

The vacant property credit/(charge) is in respect of five (2006: five) leasehold properties which are surplus to Ofcom's requirements. The credit in 2006/7 relates to the net adjustment to future liabilities arising primarily from the surrender of a lease during the year under review.

Notes to the Accounts
for the year ended 31 March 2007

8. Interest payable

	2007 £'000	2006 £'000
On DTI loan	**411**	**1,044**

9. Fixed assets

(a) Intangible

	Computer software £'000	Total £'000
Cost		
At 1 April 2006	3,042	3,042
Additions during year	5,340	5,340
Transfers	3,024	3,024
Cost at 31 March 2007	**11,406**	**11,406**
Amortisation		
At 1 April 2006	1,754	1,754
Charge for the year	1,356	1,356
Transfers	2	2
Accumulated amortisation at 31 March 2007	**3,112**	**3,112**
NBV 31 March 2007	**8,294**	**8,294**
NBV 31 March 2006	1,288	1,288

(b) Tangible

	Land & buildings £'000	Fixtures & fittings £'000	Office & field equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
Cost							
At 1 April 2006	1,242	14,833	12,943	3,350	1,468	4,595	38,431
Additions during year	17	697	116	399	-	2,666	3,895
Disposals	-	-	(105)	(139)	(161)	-	(405)
Transfers	-	-	89	359	-	(3,472)	(3,024)
Cost at 31 March 2007	**1,259**	**15,530**	**13,043**	**3,969**	**1,307**	**3,789**	**38,897**
Depreciation							
At 1 April 2006	171	4,533	5,596	1,396	837	-	12,533
Charge for the year	138	2,179	2,142	1,005	282	-	5,746
Disposals	-	-	(70)	(130)	(145)	-	(345)
Transfers	-	-	28	(30)	-	-	(2)
Accumulated depreciation at 31 March 2007	**309**	**6,712**	**7,696**	**2,241**	**974**		**17,932**
NBV 31 March 2007	**950**	**8,818**	**5,347**	**1,728**	**333**	**3,789**	**20,965**
NBV 31 March 2006	1,071	10,300	7,347	1,954	631	4,595	25,898

The bulk of the asset transfer relates to SAP and Siebel software under construction that was brought into use midway into the financial year.

Notes to the Accounts
for the year ended 31 March 2007

10. Debtors

	2007 £'000	2006 £'000
Trade debtors	1,360	4,401
Other debtors	140	78
Prepayments	2,538	2,898
Staff loans and advances	269	249
Accrued income	2,888	5,332
Value added tax recoverable	342	-
	7,537	**12,958**

Included within accrued income above is £0.7m (2006: £1.2 m) of debtors recoverable after more than one year.

11. Cash at bank and in hand

	2007 £'000	2006 £'000 restated
Cash at bank and in hand	46,599	53,310
Office of Paymaster General	91	72
Spectrum Auction deposits	-	400
	46,690	**53,782**

All activities relating to Licence Fees and Penalties were separated from the Ofcom accounts and are disclosed in the S.400 accounts. As at 31 March 2007 Ofcom held £3.0m cash, which was due to the Consolidated Fund. £1.5m of this amount is disclosed as cash at bank above. The funds were paid into the S.400 bank account shortly after the year-end and the corresponding year-end creditor is disclosed in note 13.

On 21 March 2006, Ofcom received £0.4m initial deposits from companies taking part in the auction of 12 WT Act licences for a total of 6.6 MHz of spectrum. Ofcom held these funds in a separate bank account in respect of 16 deposits of £25,000 each received from the respective applicants. Except in certain circumstances specified in the relevant Regulations, these deposits are refundable to unsuccessful bidders. As at 31 March 2007 spectrum auction deposits of £0.1m were held in relation to a subsequent auction and are disclosed in the S.400 accounts.

As at 31 March 2007, Ofcom holds funds of £0.2m on behalf of a third party, NGN UK. These funds are not included in the above balances.

12. Pension asset and liability

	2007 £'000	2006 £'000
Defined benefit pension plans' surplus	**6,170**	**10,200**
Unfunded pensions liability	**909**	**921**

Further detail in respect of Ofcom pension schemes can be found at note 25 to these accounts.

Notes to the Accounts
for the year ended 31 March 2007

13. Creditors – amounts falling due within one year

	2007 £'000	2006 £'000
Amounts due to Consolidated Fund	1,456	3,721
Trade creditors	4,852	5,218
Other tax and social security	-	1,433
Other creditors	485	792
Spectrum Auction deposits held	-	400
Value added tax	-	22
DTI grant-in-aid	25,802	28,428
DCMS grant-in-aid	114	-
Loan funding from DTI	5,186	5,186
Accruals	15,240	14,033
Deferred income	1,766	8,615
	54,901	**67,848**

Amounts due to Consolidated Fund comprise £1.5m (2006: £3.7m) of WT Act licence fees received in the Ofcom bank account. (Refer to note 11.) Other creditors includes £0.4m (2006: £0.4m) of Community Radio Grant funding received from the Department for Culture, Media and Sport (DCMS). All grants monies received were paid to the successful applicants in April 2007.

14. Creditors – amounts falling due after more than one year

	2007 £'000	2006 £'000
Loan funding from DTI	-	5,186
Rent-free creditor	21	1,421
Deferred income	49	1,278
	70	**7,885**

15. Analysis of DTI loan movement

	2007 £'000	2006 £'000
At 1 April 2006	10,372	28,182
Repaid in year	(5,186)	(17,810)
At 31 March 2007	**5,186**	**10,372**

Notes to the Accounts

for the year ended 31 March 2007

16. Schedule of loans

	First repayment	Last repayment	Original loan £'000	Repaid to date £'000	Loan outstanding at 31 March 2007 £'000	Interest rate
31-Mar-03	Mar-04	Mar-06	4,304	4,304	-	3.7%
8-Apr-03	Mar-04	Mar-06	500	500	-	4.1%
22-Apr-03	Mar-04	Mar-06	2,548	2,548	-	4.0%
17-Jun-03	Mar-04	Mar-06	2,439	2,439	-	3.6%
11-Jul-03	Mar-04	Mar-06	2,206	2,206	-	3.7%
15-Aug-03	Mar-04	Mar-06	2,481	2,481	-	4.4%
22-Aug-03	Mar-04	Mar-06	1,000	1,000	-	4.4%
17-Sep-03	Mar-04	Mar-06	3,372	3,372	-	4.3%
23-Sep-03	Mar-04	Mar-06	2,000	2,000	-	4.4%
15-Oct-03	Mar-04	Mar-06	5,607	5,607	-	4.6%
14-Nov-03	Mar-04	Mar-06	5,102	5,102	-	4.7%
15-Dec-03	Sep-04	Mar-08	11,920	8,940	2,980	4.6%
2-Jan-04	Sep-04	Mar-08	8,825	6,619	2,206	4.5%
			52,304	**47,118**	**5,186**	

The weighted average interest rate at 31 March 2007 is 4.5 per cent (2006: 4.5 per cent).

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.

17. Maturity of the DTI loan

	2007 £'000	2006 £'000
Less than one year	5,186	5,186
One to two years	-	5,186
	5,186	**10,372**

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

Notes to the Accounts
for the year ended 31 March 2007

18. Provisions for liabilities and charges

	Early retirement £'000	Vacant property £'000	Other provisions £'000	Total £'000
At 1 April 2006	1,811	10,725	501	13,037
Discount unwound in year	40	236	-	276
Utilised in year	(538)	(7,645)	(396)	(8,579)
Provision increased/(released)	22	(2,878)	858	(1,998)
At 31 March 2007	**1,335**	**438**	**963**	**2,736**

Provisions are calculated in accordance with the requirements of FRS 12. All provisions, with the exceptions of other provisions, are discounted by 2.2 per cent per annum (2006: 2.2 per cent per annum).

The provision for early retirement £1.3m (2006: £1.8m) is for early retirement costs of former employees of Oftel, the Radiocommunications Agency and Ofcom and is payable primarily in the periods to 2014.

The provision for vacant property includes three (2006: five) properties previously occupied by legacy organisations which are 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. The provision is the net present value (NPV) of the expected cash outflows calculated to the first lease break, net of the discounted value of future income streams secured from committed and reasonably certain future sub-letting agreements. The movement relates primarily to the surrender of a lease during the year.

Other provisions reflect an assessment of costs relating to challenges to regulatory decisions which are expected to crystallise within one to two years, and a provision of £0.9m (2006: £0.4m) for future redundancy costs expected to be paid in 2007/8.

19. Reserves

	2007 £'000	2006 £'000
At 1 April 2006	14,435	(8,468)
Actuarial losses on defined benefit pension plans	(5,501)	(9,699)
Surplus for financial year	22,106	32,602
At 31 March 2007	**31,040**	**14,435**

	2007 £'000	2006 £'000
Income & expenditure reserve excluding pension asset and liability	27,262	5,156
Pension reserve	3,778	9,279
At 31 March 2007	**31,040**	**14,435**

Notes to the Accounts
for the year ended 31 March 2007

20. Reconciliation of operating surplus to net cash inflow from operating activities

	2007 £'000	2006 £'000 restated
Operating surplus	18,433	31,614
Amortisation	1,356	859
Depreciation	5,746	6,106
(Profit)/Loss on disposal of fixed assets	(16)	17
Taxation	-	211
Decrease/(Increase) in debtors	5,476	(11)
(Decrease)/Increase in creditors	(15,340)	16,107
Decrease in provisions	(7,699)	(5,897)
Increase in pension assets and liabilities	(1,698)	(9,005)
Net cash inflow from operating activities	**6,258**	**40,001**

Prior year future cost of vacant properties and other finance costs have been disclosed respectively in decrease in provisions and increase in pension assets and liabilities. This was included within operating surplus in the prior year.

21. Cost of capital

For the DTI loan, the cost of capital is the interest payable in the year. Interest receivable is the financial return on cash balances.

For all other net assets (except Consolidated Fund creditors, which are excluded in accordance with standard Government accounting practice), the cost of capital is calculated at 3.5 per cent (2006: 3.5 per cent) per annum in accordance with HM Treasury guidance.

22. Commitments under operating leases

	Land & buildings £'000	**Other £'000**	**Total £'000**
Annual commitments under operating leases expiring:			
within one year	43	-	43
between two and five years	366	72	438
after five years	6,086	-	6,086
Total	**6,495**	**72**	**6,567**

Notes to the Accounts

for the year ended 31 March 2007

23. Subsidiaries

Broadcast Training and Skills Regulator Limited was incorporated on 6 July 2005. The principal activity of the company is to regulate training in the broadcast industry. The company is limited by guarantee and Ofcom is its sole member. During the year the company had a turnover of £0.3m (2006: £0.3m) and an operating profit after taxation of nil (2006: £0.1m). At 31 March 2007, the total receivable by Ofcom from subsidiary undertakings was nil (2006: £0.1m). Due to the size and extent of the subsidiary's operations during the current financial year, the company's operating results have not been consolidated in this report.

24. Gaelic Media Service

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Scottish Ministers paid £11.8m (2006: £8.5m) to Ofcom. This sum has not been reflected in these accounts but has been 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 and Scottish Ministers to be laid before the Scottish Parliament.

25. Pensions

a) Stakeholder pension plan

Ofcom's primary means of providing pension benefits to its colleagues is by contributing to a stakeholder pension plan, which is a defined contribution pension plan. Employer contributions (payable at rates between 8 per cent and 25 per cent dependent on staff grade) of £3.1m were made in the year ended 31 March 2007 (2006: £2.0m). At 31 March 2007, accruals of £0 (2006: £0.2m) were held in respect of unpaid employer contributions to the stakeholder pension plan.

b) Closed pension plans

Ofcom operates two closed defined benefit pension plans.

The actuaries are required to do a full actuarial valuation of the plans not more than three years after the last actuarial valuation. The actuaries project the year end value of the liabilities using the full actuarial valuations as a base.

- The Ofcom Defined Benefit Pension Plan was established on 29 December 2003. A full actuarial valuation was carried out as at 31 March 2006 by a qualified independent actuary. The employer contribution made to the Ofcom Defined Benefit Pension Plan for the year ending 31 March 2007 was £3.4m (2006: £7.8m). This included £1.0m (2006: nil) paid in advance and a special contribution of nil (2006: £4m) to cover the actuarial deficit in the pension plan. This rate will be reviewed following the next actuarial valuation. Ofcom also operates a defined contribution section to the plan and made contributions of £0.1m for the year ending 31 March 2007 (2006: £0.1m); and
- The Ofcom (Former ITC) Pension Plan which Ofcom jointly participates in with three other organisations, S4C, S4C Masnachol and the Advertising Standards Authority. A full actuarial valuation for this plan was carried out as at 1 January 2004. The current valuation for 1 January 2007 is ongoing. The employer contribution made to the Ofcom (former ITC) Pension Plan for the year ending 31 March 2007 was £1.2m (payable in monthly instalments) (2006: £1.8m). This includes a payment in advance of £1.0m (2006: £0.9m).

The projected unit rate was used to derive the service cost for these plans. Under this method the current service cost will increase (when measured as a percentage of salary costs) as the members of the plan approach retirement.

Notes to the Accounts
for the year ended 31 March 2007

25. Pensions (continued)

Assumptions

The major assumptions used by the independent actuary for accounting purposes only are:	**2007 %**	2006 %
Discount rate	5.4	5.0
Rate of increase in salaries	4.8	4.5
Rate of increase in payment of pre-97 excess over GMP pensions	3.3	3.0
Rate of increase in payment of post-97 excess over GMP pensions	3.3	3.0
Inflation assumption	3.3	3.0

These assumptions have led to Ofcom recording an accounting pension asset in accordance with FRS 17. However, the actuarial valuations have shown that the Ofcom Pension Plan is in deficit, and Ofcom makes contributions in accordance with the actuary's recommendations to fund the deficit.

Balance sheet

The assets in the plans and the expected rate of return were:	**Long-term rate of return expected at 31 March 2007 %**	**Value at 31 March 2007 £'000**	Long-term rate of return expected at 31 March 2006 %	Value at 2006 £'000
Corporate bonds	5.4	7,200	5.0	5,700
Index-linked bonds	4.4	160,500	4.0	153,200
Equities	7.9	34,700	7.5	37,600
Cash	5.3	100	4.5	1,600
Total market value of assets		**202,500**		**198,100**
Present value of plan liability		(190,430)		(187,900)
Surplus in the plans		**12,070**		**10,200**
Unrecoverable surplus		(5,900)		
Net pension asset		**6,170**		**10,200**

FRS 17 requires that, where a plan is in surplus, the surplus on the balance sheet can only be recognised if it is available to the employer as a refund of contributions or a "contribution holiday". The number of active members in the plan decreased, therefore the actuaries have calculated the value of the surplus that is available to Ofcom and the unrecoverable surplus of £5.9m has been charged to the Statement of recognised gains and losses.

Analysis of the amount charged to operating surplus	**2007 £'000**	2006 £'000
Current service cost	2,920	2,420
Curtailment and settlement	-	(1,100)
Total operating charge	**2,920**	**1,320**

Notes to the Accounts
for the year ended 31 March 2007

25. Pensions (continued)

Analysis of the amount charged to operating surplus	**2007 £'000**	2006 £'000
Expected return on pension plans' assets	9,120	8,760
Interest on pension liabilities	(9,290)	(8,550)
Net return	**(170)**	**210**

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)	**2007 £'000**	2006 £'000
Actual return less expected return on plans' assets	(380)	13,660
Experience gains/(losses) arising on the plans' liabilities	2,920	(4,740)
Changes in assumptions underlying the present value of pension scheme liabilities	(2,140)	(18,500)
Increase in unrecoverable surplus	(5,900)	-
Actuarial loss recognised in STRGL	**(5,500)**	**(9,580)**

Movement in surplus during the year	**2007 £'000**	2006 £'000
Surplus in plans at 1 April	10,200	10,600
Total current service cost	(2,920)	(2,420)
Employer's contributions (including those unpaid at measurement date)	4,560	10,290
Curtailment and settlement gain	-	1,100
Other finance (cost) income	(170)	210
Actuarial loss	(5,500)	(9,580)
Surplus in plans at 31 March	**6,170**	**10,200**

History of experience gains and losses	**2007**	2006
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	(380)	13,660
Percentage of schemes assets	(0.0%)	6.9%
Experience (losses)/gains on schemes liabilities:		
Amount (£'000)	2,850	(4,740)
Percentage of the present value of the schemes liabilities	1.0%	(2.5%)
Total amount recognised in statement of total recognised (losses)/gains:		
Amount (£'000)	(5,500)	(9,580)
Percentage of the present value of the schemes liabilities	(3.0%)	(5.1%)

Notes to the Accounts

for the year ended 31 March 2007

25. Pensions (continued)

c) Unfunded pension liabilities

The pension provision is in respect of the unfunded pension liabilities which fall to Ofcom for former Chairmen of the Independent Television Commission and the Radio Authority and former Director Generals of Telecommunications. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofcom. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

An actuarial valuation was carried out by Towers Perrin as at 31 March 2007. The same bases and assumptions as noted above in respect of the defined benefit schemes.

Analysis of the amount charged to operating surplus	**2007 £'000**	2006 £'000
Current service cost	-	12
Total operating charge	**-**	**12**

Analysis of the amount debited to other finance costs	**2007 £'000**	2006 £'000
Interest on pension liabilities	(45)	(43)
Net return	**(45)**	**(43)**

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)	**2007 £'000**	2006 £'000
Experience losses arising on the plans' liabilities	(13)	(49)
Changes in assumptions underlying the present value of pension scheme liabilities	12	(70)
Actuarial loss recognised in STRGL	**(1)**	**(119)**

Movement in deficit during the year	**2007 £'000**	2006 £'000
Deficit in plans at 1 April	921	794
Total current service cost	-	12
Employer's contributions (including those unpaid at measurement date)	(58)	(50)
Employee contributions	-	3
Other finance costs	45	43
Actuarial loss	1	119
Deficit in plans at 31 March	**909**	**921**

Notes to the Accounts
for the year ended 31 March 2007

26. 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 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.

Details of the loan funding from the DTI are shown in Notes 15 to 17 of these financial statements. Details of all grant-in-aid income from DTI and DCMS are shown in Note 3 and Note 13 respectively of these financial statements.

At 31 March 2007, the following creditors were held in respect of grant-in-aid provided by the DTI and DCMS:

- Spectrum management - £23.8m (2006: £24.0m);
- Spectrum Efficiency Scheme - £0.2m (2006: £2.2m);
- Programme of spectrum awards - £0.9m (2006: £1.1m);
- Competition law enforcement - £0.8m (2006: £1.1m);
- Community Radio - £0.4m (2006: £0.4m);
- Media Literacy - £0.1m (2006: nil); and
- Public interest test - £0.1m (2006: nil).

Ofcom made payments of nil (2006: £0.4m) to DTI and £0.05m (2006: nil) to HM Treasury in respect of the full employment costs of colleagues seconded by these related parties to Ofcom in the year. At year-end a creditor of £0.2 (2006: nil) was owing to HM Treasury.

27. 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.

28. Capital commitments

At 31 March 2007 there were capital commitments of £0.7m (2006: £1.6m). This primarily relates to IT equipment for Project Unify.

Notes to the Accounts
for the year ended 31 March 2007

29. Receipts transferred to the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £59.5m (2006: £62.9m) of Broadcasting Act Additional Payments and fines to the Consolidated Fund and Treasuries.

£170.4m (2006: £165.5m) of WT Act licence fees was remitted to the Department of Trade and Industry for transfer to the Consolidated Fund. Details on amounts due to the Consolidated Fund at 31 March 2007 are disclosed at note 13 to these financial statements.

30. Contingent liabilities

In April 2004, Ofcom entered into a contract with The Telephone Preference Service Ltd whereby the contractor may recover from Ofcom any loss if the contract is terminated through no fault of the contractor (for example, a change in government policy). The contract does not allow for loss of profit compensation and the contractor is under duty to mitigate loss once termination notice is given. An amount of £0.5m (2006: £0.5m) has been identified as a potential liability.

Additionally, in November 2004, Ofcom entered into a 10-year deed to contract out the regulation of broadcast advertising content to the Advertising Standards Authority. In the event of early termination of this deed, except where there has been a material breach of the deed, Ofcom may be liable for termination compensation. At 31 March 2007, Ofcom's contingent liability was £2.25m (2006: £2.5m).

From time to time, Ofcom will be subject to legal challenge and judicial review of decisions made in the normal course of its business as regulator of the communications sector. Legal judgements could give rise to liabilities for legal costs. Provision has been made in these financial statements (see note 18) for costs which are quantifiable. However, in some cases costs cannot be quantified, because the outcome of proceedings is unknown, and there is therefore considerable uncertainty as to the nature and extent of any subsequent liability.

31. Whole of government accounts

At 31 March 2007, Ofcom owed £33.0m (2006: £42.5m) and £0.8m was owed to Ofcom by central government bodies. There are no balances with local authorities, NHS Trusts or public corporations and trading funds.

S.400 shows £3.0m owing to central government bodies, of which £1.5m is included in the above (see note 11).

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID5588081 07/07

Printed on paper containing 75 per cent recycled fibre content minimum

Ofcom main offices

England

Riverside House
2a Southwark Bridge Road
London SE1 9HA

T 020 7981 3000
F 020 7981 3333

Scotland

Sutherland House
149 St Vincent Street
Glasgow G2 5NW

T 0141 229 7400
F 0141 229 7433

Wales

2 Caspian Point
Caspian Way
Cardiff CF10 4DQ

T 029 2046 7200
F 029 2046 7233

Northern Ireland

Landmark House
5 Cromac Quay
The Gasworks
Ormeau Road
Belfast BT7 2JD

T 028 9041 7500
F 028 9041 7533

Ofcom Contact Centre

T 020 7981 3040

Designed by
wonderlandWPA

Of 388 (July 07)

Published by TSO (The Stationery Office)
and available from:

Online
www.tsoshop.co.uk

Mail,Telephone, Fax & E-mail
TSO
PO Box 29, Norwich NR3 1GN

Telephone orders/
General enquiries 0870 600 5522
Fax orders 0870 600 5533

Order through the Parliamentary
Hotline Lo-call 0845 7 023474

Email **bookorders@tso.co.uk**

Textphone 0870 240 3701

TSO Shops
123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394

16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401

71 Lothian Road,
Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street,
Parliament Square
London SW1A 2JX

Telephone orders/
General enquiries 020 7219 3890

Fax orders 020 7219 3866

Email
bookshop@parliament.uk

Internet
bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

OFFICE OF COMMUNICATIONS

Riverside House
2a Southwark Bridge Road
London SE1 9HA

Switchboard +44 (0)20 7981 3000
Facsimile +44 (0)20 7981 3333

www.ofcom.org.uk

ISBN 978-0-10-294536-2