Ofcom Annual Report 2005/6

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Ofcom
OFFICE OF COMMUNICATIONS

05/06

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Contents

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Chairman's Message

Ofcom was established as a converged regulator, in significant part to help steward the transition by Britain's electronic communications industries from analogue to digital, bringing new services and enhancing quality and choice for consumers and citizens.

In the four years since I was first appointed as Chairman of Ofcom, that transition has accelerated rapidly: at the beginning of 2003 nearly one in three homes and businesses were still not connected to broadband-enabled exchanges; and the consensus was that one megabit per second was likely to be the maximum speed achievable. Today broadband availability is close to universal and consumers can get broadband speeds 24 times as fast as the 2003 consensus. Over the same period, digital television take-up has risen from 45 per cent to over 70 per cent of homes; and there is now a clear region-by-region programme of digital switchover, which will give all households a choice of at least two means by which to receive digital television. In radio, the DAB market has grown from a few thousand sets to more than three million today. And, in mobile, 3G services – which had not then launched – are now used by more than four million customers.

These are all signs of a healthy, innovative market meeting consumer needs. Effective regulation has an important part to play in underpinning the dynamism of the sector; and Ofcom has sought to assist the market to function effectively by promoting competition and protecting consumers from demonstrable abuses of the market. Equally, however, regulation that is past its sell-by date can distort the market and prevent innovation. Ofcom has therefore continued its programme of targeted deregulation; for example, towards the end of 2005/6 we consulted on proposals to remove retail price controls in the fixed-line telecommunications market.

Competition and choice are generally better safeguards of the consumer interest than regulation. Today almost nine million households make their phone calls via providers other than the incumbent and more than four million residential users – and one and a half million small businesses – also rent their phone lines from competing operators. At the same time, Ofcom has taken firm action against mis-selling by a small minority of operators to ensure that consumers can have confidence in the integrity of a competitive market.

During the year Ofcom completed its four strategic reviews of key component parts of the communications sector – telecommunications, radio spectrum, radio and public service broadcast television – and the focus has moved on to delivery against the main challenges identified in those reviews.

The BBC, with its new Charter and significant changes to governance and regulation, will remain central to providing audiences with high quality, distinctive content in this new world. In the coming year Ofcom looks forward to building an effective co-regulatory relationship with the new BBC Trust. This will include the new role given to Ofcom by Government of conducting rigorous and independent Market Impact Assessments of BBC new service proposals as part of the BBC Trust's Public Value Test.

A theme consistent to all of our strategic reviews is the arrival of true convergence in the communications sector – at the corporate level with mergers and acquisitions between formerly different parts of the sector and in the convergence of platforms, of devices and of content and services.

That convergence is rightly acknowledged by the European Commission in its draft Audiovisual Media Services Directive, which contains many sensible and forward-looking proposals to liberalise aspects of broadcasting regulation, that reflect the changing nature of television. However, the Commission also proposes to extend state regulation beyond broadcasting into a whole range of new media services. Ofcom has, and will continue to argue, alongside the UK Government and many in the sector, that in this area European Union-wide regulation is undesirable in its damaging effect on innovation. We also believe that these proposals are almost certainly unworkable in extending regulation beyond a manageable and limited number of broadcasters to thousands of services, and indeed individuals, creating content on new media platforms. We have made clear our view that the application of criminal law in response to key public concerns, such as the protection of children, backed by effective self-regulation and co-regulation, is a much better way forward. The UK has a strong tradition in this regard with bodies such as the Internet Watch Foundation and the Advertising Standards Authority, the co-regulatory body for broadcast advertising, whose Broadcast Committee of Advertising Practice has, for example, proposed new restrictions on the content of television advertisements for food and drink products in response to important public concerns about dietary imbalance in children.

As foreshadowed in our last annual report, international events have taken greater prominence this year. In addition to the Audiovisual Media Services Directive, the European Commission has embarked on a review of the EU Framework for Electronic Communications, with significant input from the European Regulators Group (ERG), chaired this year by my executive Board colleague, Kip Meek. The ERG has also been working with the Commission to find a practical solution to excessive wholesale and retail prices for international mobile roaming across Europe. On the wider international stage, Ofcom is representing the UK's interests at the International Telecommunication Union's Regional Radio Conference – the largest and most significant international negotiation about the allocation of radio spectrum in more than 40 years.

In undertaking its work the Ofcom Board is assisted by a number of committees and advisory bodies. Philip Graf's message, later in this Annual Report, gives an overview of the valuable work which the Content Board (itself a committee of the main Board with delegated powers) has undertaken this year.

The independent Ofcom Consumer Panel continues to provide thoughtful and constructive advice on issues of importance to the residential and small business consumer. We welcome the Government's recognition of the Consumer Panel's distinctive and strategic role in the Government's wider proposals on consumer representation. The Advisory Committee for Older and Disabled People, the Advisory Committees for the Nations and Regions and the Ofcom Spectrum Advisory Board have all provided good counsel and made significant input to Ofcom's policy-making. I would like to express the Ofcom Board's appreciation to the Chairs and Members of these bodies for their time and advice.

While Ofcom is statutorily an independent regulator, we are also accountable to Parliament. In addition to the series of briefings to MPs and appearances before Select Committees, set out on pages 106-107, we warmly welcome the initiative taken by the Chairmen of the Culture, Media and Sport and Trade and Industry Select Committees to hold a joint hearing into Ofcom's work. Convergent accountability for a converged regulator seems to us both sensible and forward-looking. The first such joint hearing took place just after the end of the 2005/6 financial year. We look forward to appearing at such joint hearings in the years to come.

As I enter into my fifth year as Ofcom Chairman and the organisation continues to mature, we are seeing a healthy and appropriate degree of change around the Board table. Last year our first Deputy Chairman Richard Hooper stood down. Richard was a critical member of the Ofcom Board and we greatly appreciated his wealth of experience and wisdom. In January 2006 Philip Graf joined as the new Deputy Chairman and Chairman of the Content Board. We also welcomed Stephanie Liston as a Non-Executive Member in September 2005 and Sean Williams as an Executive Member in January 2006 and the terms of Non-Executive Members Ian Hargreaves and Sara Nathan were also extended. Finally, as Stephen mentions later in this Report, he intends to stand down as Ofcom Chief Executive this autumn. On behalf of the Board I would like to express our thanks to Stephen for all his hard work and achievements.

David Currie, Chairman

Chief Executive's Report

Our aim for the financial year 2005/6 was to drive delivery: externally, of positive changes for the sector; and internally, of new ways of working which capitalised on the post-merger efficiencies gained in previous years.

During the year, our main focus lay in four areas:

- implementation of the outcomes of the strategic sectoral reviews; in telecommunications, in television public service broadcasting, in radio and in spectrum, particularly trading and auction preparation;
- the establishment of new approaches to two increasingly critical challenges: consumer policy and international engagement;
- removal of unnecessary regulatory obligations upon industry, and the continued imposition of a high hurdle to challenge calls for the addition of new regulations; and
- internal simplification, greater operational efficiency and cost reduction; for the third year running, Ofcom operated under an RPI minus budget, yielding lower regulatory fees to industry.

The sector and Ofcom

The conclusion of the Strategic Review of Telecommunications in September 2005 marked the beginning of a period of significant change in the traditional fixed-line industry and, over time, potentially across the wider communications sector as a whole.

The prospect, for the first time, of access to BT's local access infrastructure on terms identical to those previously only offered to BT's own retail activities has stimulated broad interest in the potential for new services over the local loop. In parallel, our work to stimulate and support wholesale competition in fixed-line telecoms markets has brought about real benefits to consumers and businesses; average call costs have fallen by 25 per cent since 2003; and average broadband costs have fallen by over 50 per cent while typical connection speeds have quadrupled. By the end of the reporting period, more than 10 million households and small businesses had broadband connections (compared to 1.8 million at the start of 2003), with more than 80,000 households a week signing up to broadband for the first time.

Ofcom's Spectrum Framework Review – and its associated release to the market of 400 MHz of prime spectrum over the next few years – has begun to open up the potential for innovative new broadcasting and wireless communications services. Many of these services will depend on the re-use of spectrum released when analogue television broadcasting ceases as a result of digital switchover between 2008 and 2012. In 2005/6 we started the preparatory work for Ofcom's Digital Dividend Review, which will assess how this finite and valuable national resource should be made available. During the year, wireless communications providers began to experience the benefits of Ofcom's deregulation, trading and liberalisation policy in spectrum management, with the removal of unnecessary administrative processes and restrictions in maritime, amateur and citizens' band radio.

In 2005/6 Ofcom authorised the transfer of rights to use 15 Wireless Telegraphy Act licences, allowing market forces rather than the regulator to dictate the optimal use of this valuable resource. In April 2006, shortly after the period under review, Ofcom held its first auction of spectrum in which, for the first time, winning bidders were free to decide how best to use the spectrum made available to them.

During the year, television broadcasters began to respond more rapidly to the emerging changes in UK viewing habits, eroding historical assumptions about the scope and role of television public service broadcasting (PSB). As of April 2006, more than 70 per cent of all UK television householders were watching digital television; and the UK now has the highest digital television penetration of any country in the world.

As identified in Ofcom's PSB Review, digital switchover will not be the only challenge to the regulatory agreement which for half a century has mandated that programmes should be made for the public good in return for access to scarce spectrum and large (and therefore lucrative) audiences. Just as analogue is giving way to digital multichannel, for a new generation of viewers, traditional linear broadcasting is being succeeded by mobile, internet and on-demand content, in the process raising new challenges over rights ownership; questions which lay at the heart of our review of the television production sector.

The BBC – underpinned by a new Charter – will be in a uniquely powerful position to meet these new audience needs. During the year, Parliament decided there needed to be an objective counterbalance to assess the point at which public value ends and market foreclosure begins. In future, Ofcom will undertake Market Impact Assessments to assess whether the BBC's proposed new services – or changes to existing services – would function to the detriment of others in the market who provide the welcome stimulus of competition.

In radio, where 35 per cent of adults have listened through their digital television sets, 20 per cent over the internet and a large proportion of major radio networks now offer podcasts as standard, Ofcom completed its review of the sector with a commitment to grow the medium further by expanding the range of services available over DAB digital networks. Cumulative sales of DAB radio sets has now passed the three million mark and the number of people listening to digital radio has nearly doubled in 12 months.

As a result of the expansion in DAB services set out in Ofcom's Radio Review, over the next few years local DAB multiplexes will be advertised to bring the benefits of local digital radio to those areas currently unable to receive these services; and new national services will be available on a second national commercial multiplex, significantly expanding listener choice and consolidating DAB's role as the home platform of digital radio in the UK. Unlike television, analogue remains a significant and relevant platform in radio, with an estimated 150 million FM/AM radios still in use in the UK alone. Demand for analogue licences remains high; during the financial year Ofcom awarded 15 local commercial radio licences, 92 community radio licences, four long-term restricted service licences and 495 short-term restricted service licences.

Over the coming years, consumers will benefit from an even greater choice of higher-speed broadband, internet voice, television and video-on-demand services, new digital television channels, digital radio stations and devices which move seamlessly from home to mobile networks while offering television, radio, digital downloads and more.

For providers, as for consumers, traditional boundaries between communications industries are becoming increasingly blurred. Carphone Warehouse's entry into the broadband market, BSkyB's acquisition of Easynet, ITV's acquisition of Friends Reunited and various trials of mobile television services by BT, Virgin Mobile, O2 and Arqiva are just some of the examples of collaboration and consolidation which bring together broadband, broadcasting, mobile and fixed-line services to shape new kinds of businesses.

Convergence – of companies, of industries, of content, of platforms and of devices – has been much-heralded but often, at best, incompletely delivered over the last 20 years. However, in future, 2005/6 may come to be seen as the year when the term began the final phase of its passage from 1990's think-tank concept, through millennial legislative foresight in the Communications Act to today's industrial reality, with digital networks and digital media approaching ubiquity in millions of UK homes and workplaces.

Chief Executive's Report

Consumer policy

With those new opportunities comes greater complexity; for industry, in managing the transition from analogue to digital and from switched to next-generation networks; and for consumers, for whom informed choice may require greater understanding, and who will continue to be the target of scams designed to exploit that complexity.

The development of Ofcom's consumer policy – with the appointment of a new Director and establishment of a dedicated team – was an important development in the year. Ofcom's Consumer Policy review addressed two main areas; the need to ensure consumers are properly informed, and so are able to play a part in a well-functioning market; and the need to take action against emerging consumer detriment from unfair or ineffective market structures and corporate malpractice or fraud.

International

As in much of UK public policy, developments within the European Commission and across the EU have an increasingly significant bearing on Ofcom's work. There are also important lessons to be learned from other markets beyond the EU which can have a direct influence over the development of the sector in the UK, for example in the field of international technical standards or in spectrum management.

International engagement was a key priority for Ofcom throughout the year and will continue to be so in the future. We have benefited in this work from the insights gained by my Executive Board colleague Kip Meek in his role as Chairman of the European Regulators Group, a role he took up in January 2006.

During the year Ofcom worked with the Department for Culture, Media and Sport to raise its concerns about changes to the Television Without Frontiers Directive proposed by the European Commission. These include a proposal to extend the scope of statutory regulation to include audio-visual content on the internet; a move which both Ofcom and the UK Government consider to be inappropriate.

Ofcom also began work to contribute to the European Commission's review of the EU Framework for Electronic Communications, which sets out a harmonised approach to telecommunications regulation across the EU; and to the Regional Radio Conference of the International Telecommunication Union, held in May/June 2006 to co-ordinate international decisions on radio spectrum management which will have an important bearing on digital switchover and the digital dividend.

Deregulation

As a comparatively new institution, Ofcom is, I think, unusual among UK regulators in that the contemporary principles of better regulation are incorporated into our statutory rule-book, the Communications Act 2003.

A commitment to reducing the regulatory burden upon industry underpins all of our work; both in seeking to remove existing rules which have been overtaken by market developments and are past the point of usefulness; and by resisting, through vigorous internal challenge at Executive and Board level, all attempts to establish new regulation where the case for such an imposition is anything less than crystal clear and unambiguous.

During the year we took substantial steps to remove, reduce or simplify regulation; see Figure 1 for some examples.

The Government's response to the Better Regulation Task Force (BRTF) report, *Less is More*, committed all Government departments to publishing rolling programmes of simplification. These should identify regulations that can be simplified, repealed, reformed or consolidated, and should bring forward proposals to reduce administrative burdens.

While Ofcom is an independent statutory corporation rather than a Government department or non-departmental public body, we fully support both the principle and practice of the BRTF proposals, together with Philip Hampton's report, *Reducing Administrative Burdens: Effective Inspection and Enforcement*.

During the reporting period, Ofcom published its own Simplification Plan. This describes our approach to regulation; highlights our planned deregulatory activities; provides further information about the administrative burdens we believe we place on our stakeholders; and explains how we intend to reduce those burdens.

Figure 1 Ofcom deregulation

Telecoms

Retail price controls
Proposals to allow retail price controls on BT line rental and call charges to lapse following Ofcom's Strategic Review of Telecommunications.

Large business pricing
Proposals to deregulate rules governing the amount BT charges large businesses for telecoms services.

International voice markets
Removal of regulations on international direct dial voice calls market.

Wholesale narrowband markets
Relaxed regulations on the way calls are conveyed in two wholesale telecoms markets.

Spectrum

Trading
Introduced spectrum licence trading between companies.

Spectrum release
Released spectrum to the market, allowing new licence holders to decide how best to use the spectrum.

Amateur radio
Introduced lifetime amateur radio licences, removing the requirement for regular renewal.

Ships' radio
Removed annual licensing process for maritime users; replaced with a simpler, cheaper process.

Radio Frequency Identification (RFID)
Allowed RFID technology to be used without the need for a licence.

Interference
Moved from routine interference inspections to ones focusing on cases where there is the greatest risk of serious interference.

Broadcasting

Broadcasting Code
Published a shorter, simpler Code which reduces restrictions on content so long as it is properly labelled.

Cross-promotion
Proposals to relax the rules governing the cross-promotion of television channels.

Product placement
Proposals to relax the rules on product placement on television.

Television sponsorship
Proposals to extend the sponsorship of commercial television and radio channels.

Radio Review
Removed regulation on inputs, instead focusing on outputs, allowing radio stations greater flexibility in studio location.

European engagement
Highlighted the costs of extending the existing European Television Without Frontiers Directive to include video content over the internet.

Chief Executive's Report

Reducing costs and improving efficiency

Ofcom is predominantly funded by industry. Our operating budget is a net cost to the bottom line of companies who are at the heart of a sector of growing national importance. The knowledge of that fact informs our constant desire to minimise operating costs and increase internal efficiency.

Three years ago we committed the organisation to a year-on-year operating budget reduction, in the best regulatory finance tradition, of RPI minus x; in other words, a real-world reduction in our spending that would deliver, over time, a demonstrable reduction in the cost of regulation to our stakeholders.

We have delivered on that commitment each year since; our operating budget for 2005/6 was 8 per cent lower than that for 2004/5 in real terms. We also strive to achieve greater savings during the course of the financial year; at the end of the reporting period, we delivered our work for the year £4.0m under budget, and remitted this sum back to industry in the form of lower average regulatory fees. The RPI minus x commitment continues going forward; the operating budget for 2006/7 is 5 per cent lower than the previous year and 12.6 per cent lower than the operating budget for 2004/5.

Ofcom's headcount as of 31 March 2006 was 776; for context, the five organisations we replaced had a combined headcount of 1,152.

Ofcom's approach to pension provision continues to yield a long-term benefit to our financial liabilities. Colleagues who join Ofcom directly (as opposed to those who joined from the legacy organisations) are offered a pension allowance, which may be contributed to a defined contribution stakeholder scheme, rather than membership of a defined benefit (or final salary) pension scheme, which remains the public sector norm. Unlike defined contribution pension schemes – where fund growth is derived from the capital markets – defined benefit pension schemes expose the provider to significant financial risk in later years. As of 31 March 2006, 75 per cent of Ofcom colleagues were employed on terms with a pensions allowance; up from 72 per cent as of March 2005.

During the period under review, we also began a major overhaul of all information services (IS) systems. When Ofcom was established, we inherited some 45 different IS systems from the five legacy organisations who preceded us. During the first two years of operations it would have been unwise to have made decisions about the organisation's long-term IS needs; amid all of our early work to build the organisation's capabilities and assess priorities for action, those needs were unlikely to be clearly identified. The legacy systems were therefore incorporated as a stop-gap pending a thorough review.

That review was undertaken during the year, and the outcome – a significant multi-year programme called Project Unify to enhance capabilities in areas as varied as licensing, field operations, finance, human resources, project management, the Ofcom Contact Centre and more – was put into motion in February 2006, together with Ofcom's new IS partner, Capgemini.

We have also continued to rationalise our portfolio of properties which, as a smaller organisation, are surplus to our requirements. When Ofcom was created it inherited 45 properties from the five previous regulators; 21 properties have now been disposed of or surrendered to the landlord. In 2005/6 this included the disposal of our office in Whyteleafe, Surrey, which raised £2.9m. In addition, three floors of Ofcom's London headquarters at Riverside House were let to new tenants and a fourth floor is on the market.

During the year we also implemented an organisational restructure to increase our internal operating effectiveness. This involved a number of changes in executive responsibilities – including the appointment of Senior Partner Ed Richards as Chief Operating Officer – to target skills and resource at Ofcom's main areas of focus.

Ofcom has developed a detailed process to evaluate its own performance, both for the purpose of internal administrative simplicity and to ensure appropriate external accountability. Our evaluation framework measures outputs achieved against a broad range of specific criteria. In this report, for the first time, an analysis of our performance is set out in full within the Operating and Financial Review; details can be found on page 66.

Looking ahead

The year ahead holds the prospect of a number of significant developments in the sector, which Ofcom will seek to reflect in its work.

In telecoms we will seek to promote competition and innovation in voice and broadband services by ensuring effective implementation of BT Group plc's Enterprise Act Undertakings. We will also develop our understanding of the evolution of next-generation networks and services and will consider the implications of these for the future of regulation, particularly as new fibre optic-based access networks begin to move from concept to construction.

We will continue our programme to release new radio spectrum to the market – with a further six awards to take place in 2006/7 – while deregulating and liberalising wherever possible to maximise innovation in the use of this vital national asset. We will also publish proposals on how we intend to reap the greatest benefits for consumers and audiences from the digital dividend released by digital switchover.

In television we will undertake further work to underpin the future of public service broadcasting in an era when digital television and broadband-enabled homes dominate and households watching analogue television only represent a rapidly dwindling minority. This will include a financial review of Channel 4 to help ensure the broadcaster is effectively placed to deliver its PSB obligations in future; the conclusion of work to resolve the rights ownership questions which are central to the television production sector; further development of the Public Service Publisher concept to extend public service content beyond its traditional analogue heartland; and further research on local television.

During 2006/7 we will increase the choice and range of digital radio services with the award of new multiplexes. More broadly, we will consider the long-term direction of the radio industry, including an analysis of the future of the AM and FM bands and of emerging digital radio technical standards which may offer the prospect of enhanced services.

With effect from 15 October, I will be standing down as Ofcom Chief Executive. As I said when my decision was announced by the Board in May, there is never a good time to leave a great job; but with Ofcom now firmly established and the communications industries delivering real results, it is now time for someone else to lead the organisation through its next phase of development.

I would like to thank my colleagues for their hard work; and I would like to thank our many stakeholders for their rigorous scrutiny, constructive challenge and positive engagement throughout the year. Their contributions have led to what are, I hope, better-informed decisions about the right approach to this most dynamic and fascinating of sectors.

Stephen A. Carter, Chief Executive

Annual Report of the Content Board

The guiding principle of the Content Board is to identify where the justified interests of UK citizens lie – in relation to broadcast content – and to intervene to the minimum extent necessary in the freedom of operation and of expression by the broadcasters.

The most significant event in the Content Board's year was the publication of Ofcom's first Broadcasting Code – a major project, which drew upon but significantly reshaped the previous programme content codes of the Broadcasting Standards Commission, Independent Television Commission and the Radio Authority. The Content Board's overall aim was to ensure that freedom of expression could flourish while maintaining the importance of protecting children. The Content Board's challenge was to do this against a backdrop of an ever-changing media environment, where the availability of audio-visual material is increasing.

In its first eight months of operation the new Code has had an encouraging start. It offers simpler and clearer rules, supported by crisp guidance on how to avoid contravention and Ofcom looks forward to continuing to work with broadcasters in implementing the Code.

Two judgements made by the Content Board underscored the approach to broadcast standards that the new Code establishes. First, the Content Board, under the chairmanship of my predecessor Richard Hooper, noted that the BBC's broadcast of *Jerry Springer – the Opera* had generated an unprecedented number of complaints to Ofcom. The Content Board acknowledged that complainants clearly felt that the show denigrated the Christian religion and the representation of religious figures was offensive to some. However, in reaching its conclusion that the programme did not contravene the Code, the Content Board took into account the importance attached to freedom of expression, particularly in the context of artistic works, beliefs, philosophy and argument. *Jerry Springer – the Opera* was also seen as an important work and commentary on modern television and – crucially – the BBC had gone to considerable lengths to provide potential viewers with information to enable them to make an informed judgement on whether to watch.

The second significant decision the Content Board considered was whether to allow the more explicit form of 'adult' content, known by the BBFC classification as R18, on cable and satellite television. This decision centred on whether protection mechanisms – PIN numbers and so forth – provided adequate security to prevent access by children. The Board concluded that, currently, for the strongest sexual material they do not, and therefore recommended to the main Ofcom Board that the restriction should remain. As technology develops, the judgement may change.

Also in the standards area, Ofcom had already contracted out broadcast advertising to a co-regulatory body, the Advertising Standards Authority. The Content Board received reports on the operation of the new system which appeared, in its first full year of operation, to have led to no reduction in advertising broadcast standards. The Content Board also contributed to the policy options and in particular to the design of the research for the consultation on new restrictions on the advertising to children of food and drink products which are high in fat, salt and sugar content.

A vital, statutory, role for the Content Board is to reflect to Ofcom the interests of the nations and regions of the UK, in relation to decisions about content. The Content Board gave a strong steer to the Ofcom television production sector review, concerning production outside London. The Content Board also emphasised the importance, in the future, of new television distribution mechanisms as part of Ofcom's report on digital local content.

Ofcom published its strategic review of the radio sector and, drawing on advice from the Content Board, advocated the long-term withdrawal from intrusive 'input' regulation, focusing instead on the formats and actual content. At the same time, the Content Board reaffirmed the importance of local content in local radio, and confirmed the guidance for stations in how to achieve the necessary engagement with their communities.

I have been fortunate in inheriting the Content Board that Richard Hooper and Sara Nathan recruited and shaped. The Content Board has already established a strong and consistent approach to our regulation of content. Maintaining this will be essential as we move swiftly into a new regulatory environment, as the communications sector rapidly evolves and as consumer attitudes and preferences change. In the future it is likely that there will be less emphasis on external regulation of content and more emphasis on enabling audiences to make informed choices, through clear labelling and improved means of navigation among new and newly converged forms of media. Above all, as the content industries continue to evolve, the primary justification for restriction of freedom of expression by broadcasters will relate to the protection of children and young people.

Closely linked to this is the Content Board's role in supervising Ofcom's continuing Media Literacy project. During the period under review, this led to the publication of important research into current levels of access to the full range of media, and differing abilities to understand and to create content.

The Content Board also gives advice to both the Executive and the main Ofcom Board on projects that are shaping future content provision. This will include further development of the Public Service Publisher concept as a way of sustaining public service broadcasting; work to ensure that Ofcom maximises the digital dividend that will result from digital television switchover; and the convergent media project to develop a regulatory model that is appropriate for future media content.

I look forward to leading the Content Board in addressing these challenges.

For details of the work of the Fairness and Content Sanctions committees, see pages 85 to 86 of Section C.

Philip Graf CBE, Chairman, Content Board

Annual Report of the Content Board

Figure 2

The Content Board made the following decisions and recommendations to the main Ofcom Board or Radio Licensing Committee:

'Tier 1' – standards and other industry codes

- Approved the final draft of Ofcom's Broadcasting Code, published in May 2005
- Agreed changes to the Advertising Code in relation to alcohol and health claims
- Considered changes to the process for handling complaints about unfair treatment and infringements of privacy in radio and TV programmes
- Adjudicated on the 8,860 complaints about BBC Two's *Jerry Springer – the Opera*, concluding that the relevant broadcasting code had not been contravened
- Turned down an appeal from the BBC against the Executive's decision to record a contravention of the standards requirements of the relevant broadcasting code for transmitting *Pulp Fiction* too early in the evening
- Approved proposed reform of rules governing cross-promotion between broadcasting services
- Approved new Ofcom guidance on acceptable standards in live news programming and in broadcast trailers

'Tiers 2 and 3' – public service television

- Approved proposals for research and 'stakeholder seminars' to assess the effectiveness of delivery of Public Service Broadcasting; the topic of the first such seminar was current affairs programming
- Considered annual statements of policy and reviews by commercial Public Service Broadcasters, and agreed that these conformed to the Ofcom Note of Guidance
- Approved Ofcom's revision of quotas for non-news programmes on ITV1 in Scotland, Wales and Northern Ireland
- Agreed to discontinue the upward 'ratchet' of Five's original production quota, but fixed it at a higher level – 55 per cent – than the broadcaster had requested

Radio formats

- Agreed to aspects of format changes proposed by Classic Gold AM and Star Radio, but declined others
- Declined to agree to a change in format for the Kix 96 radio station in Coventry

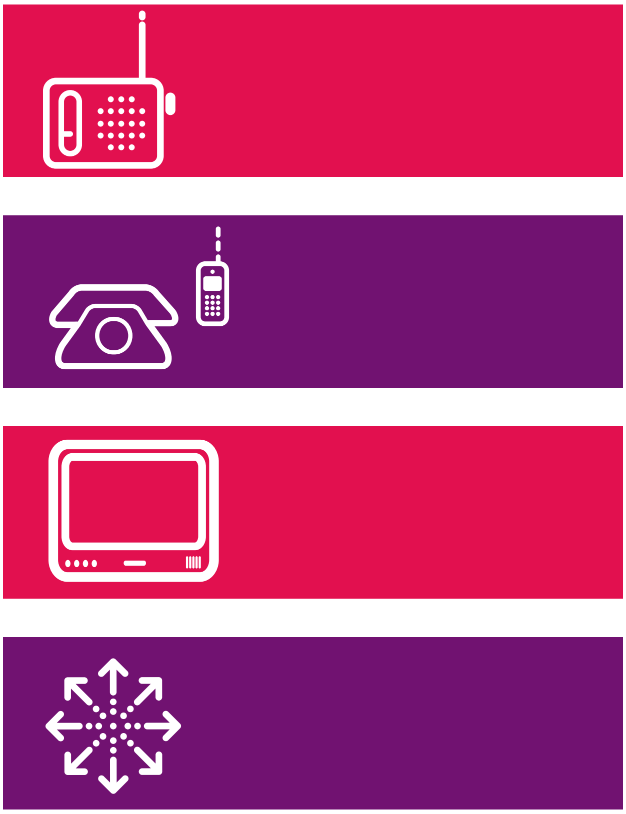
Media literacy

- Agreed plans for an audit of media literacy in the UK and set Ofcom's policy in relation to media literacy for the coming year
- Agreed that Ofcom should support the industry Media Literacy Task Force, but should not become a signatory to its Charter

Major reviews

- Approved the policy proposals and text of the Ofcom Radio Review
- Supervised the design of the Television Production Sector Review, and agreed policy options and text of the report
- Provided input to policy options and text for Ofcom's consultation, Television Advertising of Food and Drink Products to Children
- Supervised design of the project on regulation of Convergent Media
- Established the approach followed in a published report on the future of Digital Local Content, and approved the text of the report

The Communications Act 2003 sets down 263 statutory duties which Ofcom must fulfil in its work across the telecommunications, television, radio and wireless communications sectors. Ofcom also has a broad range of duties and powers under the non-consolidated parts of the Broadcasting Acts and other broadcasting legislation and under the Wireless Telegraphy Acts (WT Acts) and other wireless communications legislation. The Communications Act 2003 also requires Ofcom to act as the competition authority for the communications sector.



Telecommunications

Telecommunications

Strategic Review of Telecommunications

During 2005/6, Ofcom concluded its wide-ranging Strategic Review of Telecommunications, some 22 years after the UK telecoms market was first opened up to competition. In concluding its Review, Ofcom set out a new regulatory approach for fixed-line telecommunications designed to benefit both consumers and the communications sector as a whole.

Genuine competition in the fixed-line telecoms markets, at the deepest levels of infrastructure, creates a virtuous circle of new investment in emerging technologies and innovation in services and price competition. This benefits consumers and helps to maintain the competitiveness of the UK economy as a whole.

At the heart of Ofcom's review is a desire to bring about real equality of access to those parts of the telecoms network that BT Group plc's competitors cannot viably replicate, and so promote competition between networks. In June 2005, Ofcom identified six objectives underlying its new approach:

- to drive down the price of calls, connections and services for consumers and businesses;
- to support more innovation – such as faster broadband, video-on-demand and voice over the internet;
- to provide regulatory certainty for providers and investors;
- to refocus regulation where it is needed, with swifter remedies and a structured timetable designed to deliver equivalence through incentives and penalties;
- to remove regulation where competition is effective; and
- to ensure the necessary level of consumer protection through a combination of codes, sanctions and effective information.

In June 2005, the board of BT Group plc agreed in principle to offer the Ofcom Board legally binding Undertakings. These were subject to further consultation during the summer and were accepted by Ofcom in September:

- **Enforceability**. BT Group plc agreed to offer Undertakings in lieu of a reference to the Competition Commission under Section 155(1) of the Enterprise Act 2002. These legally-binding Undertakings mean that, in the event of a breach, Ofcom could commence proceedings in the High Court to enforce them. Any affected third-parties could also seek damages in the same way to recover losses they incurred. The Undertakings sit alongside Ofcom's existing competition and regulatory powers.

- **Branding and identity**. BT Group plc agreed to set up a new and operationally separate business unit, with a distinct brand identity, responsible for the local access and backhaul network. The new unit, which BT Group plc later unveiled as 'Openreach', has its own employees, separate bonus schemes, separate operating and trading systems; and new branding on uniforms and vehicles.
- **Product equivalence**. The new business unit will support all communication providers' activities, including those of BT, on an exactly equivalent basis (termed by Ofcom as 'equivalence of input'). This means that all companies will benefit equally from the same products, prices and processes when they order, install, maintain and migrate connections for their customers.
- **Products and services**. The new unit will offer universally available product and services. This includes use of BT Group plc's access network, the ability to offer line rental on an unbranded basis (wholesale line rental and unbundled local loops) and the use of transmission capacity from BT Group plc's exchanges to competitors' own networks (backhaul). Equivalence of Input will also apply to BT Group plc's wholesale internet service.
- **Next Generation Networks**. BT Group plc will follow a clear set of principles in developing its next-generation 21st Century Network, ensuring that other providers do not suffer any competitive disadvantage.
- **Board and governance**. Compliance, by both BT Group plc and Openreach, is monitored by a new Equality of Access Board.

Ofcom believes the Undertakings will deliver real equality of access to all providers, encouraging investment and innovation, reducing prices and expanding choice for consumers and businesses, while underpinning the UK's industrial and economic competitiveness.

Ofcom committed to the publication of a quarterly Implementation Report intended to track BT Group plc's progress in complying with the Undertakings. Ofcom also committed to monitor the impact of the Undertakings, including:

- the extent to which BT Group plc is meeting both the letter and the spirit of its Undertakings;
- results as they affect wholesale customers, including local loop unbundling and wholesale line rental investment, and product take-up; and
- results affecting retail customers – both consumer and business – in terms of retail prices, service quality and product ranges.

Openreach was launched on 21 January with its own senior management team, its own headquarters in Mayfair and a field-force of around 30,000 people assigned to work for it.

Openreach

The Undertakings required BT Group plc to set up a new and operationally separate business unit, which it branded Openreach, to be responsible for BT's local access and backhaul network.

The role of Openreach is to support all communication providers' retail activities (including those of BT Wholesale and BT Retail) on an exactly equivalent basis, known as Equivalence of Input.

Openreach was launched with a distinct brand and identity, and staffed by around 30,000 employees responsible for the operation and development of BT Group plc's local access networks. Openreach has:

- separate bonus and incentive schemes;
- separate operating and trading systems;
- begun to introduce its own branding on uniforms, ID cards and vehicles; and
- established 'Chinese walls' to restrict information-sharing between Openreach and BT Group plc.

Equivalence of Input

Equivalence of Input is the model where all communication providers – including BT Group plc itself – purchase exactly the same wholesale products through exactly the same systems. Equivalence of Input applies to:

- access to unbundled local loops, including fully unbundled loops (where a provider takes full responsibility for all of the customer's voice and broadband services) and shared loops (where BT Wholesale continues to provide voice services while another provider is responsible for broadband);
- wholesale line rental, where a provider takes responsibility for line rental and typically provides a single bill for both line rental and calls;
- backhaul products, which are used to connect the local access network to the core network. Some providers have built out their own backhaul networks, but many others are dependent on BT Group plc for wholesale backhaul services; and
- BT Group plc's wholesale broadband access services, used by many internet service providers to offer broadband connections for their customers.

The Undertakings also set out a number of principles which BT Group plc must follow in the design, procurement and build of its 21st Century Network to ensure that other providers who will depend on interconnection with this network do not suffer competitive disadvantage.

Equality of Access Board

Compliance with the Undertakings by Openreach and other BT Group plc business units is monitored by the Equality of Access Board (EAB). The Undertakings require BT Group plc to act swiftly on the recommendations of the EAB.

Key characteristics of the EAB:

- it is a compliance board, not an operating management board;
- it is chaired by a non-executive director on the Board of BT Group plc and is comprised of four other members, of whom three are independent;
- all board members have been appointed in consultation with Ofcom;
- it produces and publishes a regular summary report of its activities;
- it has extensive powers to seek access to information from wherever in BT Group plc it deems necessary to do its work; and
- it is obliged to report all breaches of the Undertakings, material or not, to Ofcom.

Local Loop Unbundling

Local Loop Unbundling (LLU) enables providers other than BT Group plc to take full control of the loop connecting homes and businesses to the local exchange, and provide a range of competitive services over that connection.

Ofcom believes that a well-functioning LLU market is an important component of a competitive fixed-line telecoms market. Competition in LLU means that alternative broadband providers can control their own networks and tailor price and service offerings more closely to customers' needs, offering the potential for lower prices and faster broadband speeds.

In order to promote competition in the broadband market, Ofcom set a ceiling in September 2005 on the price that BT Group plc could charge its competitors to rent a fully unbundled local loop. The aim was to ensure that BT Group plc's charge is fair, reasonable and cost-orientated.

Ofcom set the maximum price at £81.85; this was introduced at the end of October after one month of consultation. The move followed BT Group plc's voluntary price reduction in August from £105.09 to £80. However, Ofcom also believed that establishing a price ceiling was important, to ensure charging transparency and to avoid the possibility of increased charges in the future.

By March 2006, there were more than 300,000 unbundled lines in the UK.

Retail Price Controls

A combination of new technology and greater competition between providers based on appropriate regulated products means that consumers today have wider choice and lower prices than before. Ofcom published proposals in March 2006 to deregulate the retail price controls on BT line rental and calls which have governed the UK telecoms market since it was liberalised. The proposals reflect the increasing competition in the market.

Subject to a public consultation, the proposals are intended to come into effect on 1 August 2006, when the existing charge control is due to lapse. For the first time all phone companies – including BT Group plc – would be free to set their own prices and compete for customers in the future, with clear protections in place to protect vulnerable groups.

In the UK, average call prices have come down by around 60 per cent since 1996. The key drivers behind this change include:

- **greater competition**. More than 10 million households, including more than four million cable customers, now use providers other than BT Group plc for their fixed-line telephone calls, using regulated wholesale products (Wholesale Line Rental and Carrier Pre-Select);
- **reductions in wholesale charges**. Ofcom has effected significant reductions in the underlying charges for the use of BT's network;
- **new technology**. With more than 10 million homes now connected to broadband, there is significant room for growth in the estimated 500,000 active users of Voice over Internet Protocol (VoIP) services; and
- **competitive local access investment**. By February 2006, more than 300,000 lines had been unbundled to enable a range of providers to offer voice, broadband and video services over existing phone lines.

Ofcom also proposed to launch a public information campaign to make consumers aware of the new deregulation.

Next Generation Networks

The UK's fixed-line telecommunication networks will be transformed over the next three to five years by a major upgrade, which will significantly change the way they operate. Termed 'Next Generation Networks' (NGNs), they will make use of digital technology to connect telephone calls and other network traffic more efficiently than traditional networks. Internet Protocol (IP) services will be developed more quickly and at a lower cost to communications providers. Over time, NGNs will offer consumers a wider choice of new products and more value for money.

However, the establishment of NGNs represents a significant technological change and demands substantial investment and planning. As with many emerging technologies, the providers need to agree the technical and commercial arrangements for connecting to each other's networks.

Telecommunications

To encourage progress and provide a clear point of focus, Ofcom established a new industry body, NGN UK, under Executive Chairman, Peter Black. The purpose of this body is to facilitate decision-making for the whole of the UK telecoms industry on the commercial and technical arrangements for NGNs. At its launch in March 2006, eight companies had already committed to NGN UK: BT, Cable & Wireless, Easynet, Kingston Communications, NTL, Thus, Vodafone and Wanadoo UK.

Ofcom will monitor the new body's work closely to make sure that the industry's commercial priorities inform future regulation.

Wholesale and large business markets

Network charge controls

After consultations earlier in the year, Ofcom announced details in August 2005 of network charge controls for BT narrowband products, for the four years from 1 October 2005.

The new controls will limit BT Group plc's prices for a specific set of wholesale telecoms charges. When combined with effective retail competition, the move could mean a saving for UK business and consumer users totalling £350-400m over the four-year period. At the same time, regulations were relaxed into two wholesale markets where competition is emerging.

Ofcom also stated that, although the same broad approach to regulating BT Group plc's narrowband services had applied since 1997, changes may be needed in the future as Next Generation Networks, including BT Group plc's 21st Century Network, are developed.

Wholesale Line Rental (WLR)

WLR allows consumers to choose from a range of competing providers for both their voice calls and line rental, all paid via a single bill. There are now nearly three million WLR lines in the market, increasing at a rate of over 160,000 every month.

In November, Ofcom proposed a reduction in the annual rental charges that telecoms companies pay for WLR. This meant that monthly rental charges would fall by 9 per cent (or 85 pence a month) to a proposed ceiling of £8.39 a month. Business WLR would fall by 8 per cent (78 pence) to a proposed ceiling of £9.17 a month. After a consultation, these charges were confirmed in January and introduced on 1 March.

The calendar year closed with Ofcom confirming that, after two years of development, the WLR product met a series of agreed criteria (subject to specific conditions). These requirements, first agreed in 2003, covered service standards, functionality and market impact. Ofcom's assessment meant that the existing retail price controls on BT Group plc were relaxed to a safeguard cap (RPI-zero) on 1 January 2006.

Large business pricing

In September, Ofcom announced proposals to remove certain rules governing the amount BT Group plc charges large businesses for telecoms services. Currently, BT Group plc must offer all large organisations the same published call and line prices. Under new proposals, which were subject to consultation, BT Group plc would be able to agree individual terms with customers that spend more than £1m a year on telecoms, without having to publish its prices. Ofcom believes that this will stimulate more competition in the fixed-line market, and open up the possibility of lower prices for large organisations.

The changes are contingent on the availability and replicability of wholesale services that enable competitors to replicate BT Group plc's services on an equal footing. A statement on large business pricing was published after the reporting period.

Consumer policy

Challenging mis-selling, slamming and poor complaints handling

The number and range of fixed-line telecoms providers is greater today that ever before, with increased competition driving down prices and encouraging the introduction of new services. However, with increased choice and competition there is a greater potential for service failure or, in the worst cases, deliberate corporate malpractice. Abuses include ‘slamming’, where customers are switched from one supplier to another without their knowledge and consent, and mis-selling, where the service offered to the consumer does not match the service described at the point of sale.

In April 2005, Ofcom introduced an obligation on companies selling services in the fixed-line telecoms market to establish and comply with Codes of Practice on sales and marketing practice, in accordance with published guidelines. This obligation came into effect in May, and will remain in place for two years, at which point sales and marketing standards and abuses will again be reviewed. Meanwhile, Ofcom said it would investigate allegations of non-compliance on a case-by-case basis, with powers to impose fines of up to 10 per cent of relevant turnover if sufficient steps to remedy the behaviour were not taken.

Ofcom also published best-practice recommendations for providers on how their Complaints Codes of Practice must address the handling of complaints and resolution of disputes.

There are two approved alternative dispute resolution (ADR) schemes: the Office of the Telecommunications Ombudsman (OTELO) and the Communications and Internet Services Adjudication Scheme (CISAS). In July 2005, Ofcom published a consultation reviewing the ADR schemes and found that the majority of the major providers were members: CISAS’ membership had grown from 49 to 144, and OTELO’s from seven to 165. Research also showed that:

- more than two-thirds of complainants were dissatisfied with the way their providers handled their complaints;
- awareness of the ADR process was low, with only 5,000 of some one million complaints being referred to ADR; and
- around 80 per cent of complainants accepted the decision of ADR schemes.

In December 2005, Ofcom finalised its recommendations to ensure that providers deal with customer complaints more effectively. As well as confirming its approval for OTELO and CISAS, Ofcom identified three key priorities: that both ADR schemes should publish key performance indicators on how quickly complaints are dealt with; whether customers are satisfied; and that Ofcom should be notified promptly of any serious breach of scheme rules by a member company.

In August, Ofcom also approved an amendment to the Code of Practice of the premium rate regulator ICSTIS. The revision meant that network companies that connect premium rate calls will be prevented from sharing call revenues with providers who offer premium rate services for at least 30 calendar days. This gives ICSTIS important additional time to assess complaints and detect misleading or fraudulent activity, and revenues may be frozen in the event of investigations being necessary.

In February 2006, Ofcom launched a consultation on proposals addressing four key areas:

- consumer protection, and better early-warning systems against scams and mis-selling;
- enforcement, with quicker and more targeted action where it’s needed;
- complaint-handling, and how systems for complaints about communications providers can be improved; and
- consumer information and ensuring that consumers can make well-informed decisions based on reliable and useful data.

A statement on consumer issues was published after the reporting period.

Further details of complaints received by the Ofcom Contact Centre can be found on page 60.

Universal Service Obligations

The Communications Act 2003 requires Ofcom to ensure that all consumers are able to benefit from basic fixed-line telecoms services. The obligations upon BT Group plc (and, in Hull, Kingston Communications) to meet this demand are described as Universal Service Obligations (USO). In June 2005, Ofcom launched a consultation on its approach to this important area of consumer protection. In March 2006, Ofcom published a statement on five principal proposals:

1. **Low-cost schemes**. BT Group plc and Kingston Communications will offer a new low-user scheme which will target people who receive Income Support, income-based Job Seeker’s Allowance and Pension Credit.

2. **Phone boxes**. Although phone boxes can represent a lifeline to certain customers, some are expensive to run and very rarely used. Where BT Group plc or Kingston Communications seek to remove a phone box, local communities have a 'local veto' which will be available to unitary, metropolitan, district and equivalent councils. This will apply to the last phone box within a 400-metre area, and the consultation period for proposals will be extended from 42 days to 90 days. There will also be more freedom to use cashless phone boxes where vandalism is a persistent problem, or where phone boxes are needed mainly for emergency calls.

3. **Customers with disabilities**. Ofcom announced the establishment of a Stakeholder Advisory Panel to monitor the delivery and performance of text and voice services. These include text relay, a service which translates voice calls into text and is a vital communications aid for many people with disabilities.

4. **Phone lines for all**. From 1 March 2006, BT Group plc and Kingston Communications were required to install new phone lines at a standard cost of £99.99, regardless of the location. However, if the actual cost to those companies is more than £3,400 the customer may be charged for the difference above this threshold.

5. **Funding USO**. This is met by BT Group plc and Kingston Communications, and Ofcom did not propose to change this arrangement.

Action against silent calls

Silent calls are generated by call centres in industries including telemarketing, market research and debt collection. Many call centres set up outbound phone calls to consumers; however, if those systems establish more outbound calls than there are agents available the result is silence on the line when a person being called picks up the phone. These abandoned calls can cause significant anxiety and annoyance.

In October, Ofcom consulted on a revised policy, and in March announced a new approach to deal with the persistent misuse of electronic communications networks or services, under sections 128-130 of the Communications Act.

The new guidelines include three key requirements:

- abandoned call rates must be below three per cent of all calls made in any 24-hour period;
- all abandoned calls must carry a short recorded message, identifying the source of the call; and
- a caller line identification (CLI) must be presented on all outbound calls that are generated automatically. CLI allows people to dial 1471 and find out who called them.

Separately, the Government confirmed it had increased at Ofcom's request the maximum fine Ofcom may impose on offenders, from £5,000 to £50,000.

Action against rogue internet diallers

During the previous year Ofcom received an increased number of complaints about rogue diallers, malign software which can become installed on a computer within a dial-up connection when a user opens spam email or visits certain websites. Without the user's knowledge, the diallers transfer existing dial-up connections from freephone or low-cost numbers to more expensive numbers.

In November, Ofcom proposed to extend the reach of Premium Rate Services requirements, which currently govern 09 premium or international numbers, to enable the premium rate regulator ICSTIS to take action against those linked to rogue dialler use – regardless of the number used or the call charges involved.

A statement was published after this reporting period.

Voice over Internet Protocol services

At the close of this reporting year it was estimated that there were more than 500,000 active residential users of Voice over Internet Protocol (VoIP) services in the UK. These services offer customers the prospect of lower-priced calls – particularly calls from one VoIP service to another – as well as services such as call handling and unified messaging.

In February 2006, Ofcom proposed a code for VoIP service providers to ensure that key information about the capabilities of their services is made available to consumers. Ofcom also proposed other steps to encourage providers to offer 999 emergency calls, and to help them comply with regulations associated with Publicly Available Telephone Services.

Hospital calls

As a result of complaints from consumers concerning the cost of calling hospital patients, in July 2005 Ofcom launched an investigation into two providers, Patientline and Premier. Ofcom found that high call prices (up to 49 pence per minute peak and 39 pence per minute off-peak) were the result of a complex web of Government policy and agreements between the providers, the NHS and individual NHS Trusts. The investigation also focused on a recorded message at the start of these calls, and the exclusivity and length of agreements between NHS Trusts, Patientline and Premier.

In line with the Office of Fair Trading's guidelines, Ofcom set out its concerns and recommendations in January to the Secretary of State for Health. It also recommended that the Department of Health should review all aspects of bedside telephone services (and entertainment systems) in hospitals, the cost of which seemed to be borne disproportionately by friends and family calling patients.

Further details of Ofcom's investigations programme can be found on pages 58 to 59.

Numbering

Numbering review

Telephone numbers are a vital – and finite – national resource. They underpin all telecoms services and play a key role in how UK households and businesses access and pay for £34bn-worth of services every year. Under the Communications Act 2003, Ofcom is responsible for managing the UK National Telephone Numbering Plan, and published a review of the Plan in February.

Ofcom identified six key proposals, designed to encourage greater innovation, support the creation of new services, increase consumer awareness and strengthen consumer protection. They were:

- **a new countrywide number range: 03**. This would be charged to the consumer at the same rate as a geographic number and would mean organisations with a national presence could be reached without charging consumers a premium. Calls to 03 numbers could also be included in inclusive or low-cost call packages offered by landline or mobile phone companies;
- **a new consumer protection test**, denying numbers to providers who have previously abused consumer trust;
- **a new 06 number range** for personalised number services, removing the confusion – and potential for scams – between the current personalised number range 070 and 07 for mobiles;
- **a simplified structure of the 08 range**, banding new numbers by price. For example, an 082 number would cost less to call than an 089 one;
- **a simplified structure for 09 premium rate numbers**; and
- **a new allocation system** to avoid changes to geographic numbers in the future.

Separately, Ofcom launched a public awareness campaign to highlight London's new (020) 3 number range. The first of these new numbers were released to providers in summer 2005.

For information on the number of numbering applications processed by Ofcom, see page 78 of Section C.

0870/1 and 0844/5 numbers

Introduced in 1996, 0870/1 and 0844/5 numbers (Number Translation Services or NTS) enable access to a range of services, from pay-as-you-go internet access and travel enquiries to tele-voting and phone banking. However, the growth of these non-geographic calls has led to high levels of concern among consumers that services based on NTS are not clearly priced and marketed.

Ofcom's initial proposals for NTS in October 2004 led to a range of responses from consumers and providers, and some marked disagreements. In September, Ofcom consulted on revised proposals including:

- **0870**: an end to revenue-sharing. Ofcom proposed that calls to 0870 numbers should be priced the same as national-rate geographic numbers, effectively ending revenue-sharing;
- **0871**: reclassified as premium rate. ICSTIS to regulate 0871 numbers, with companies using them subject to the same requirements that apply to 09 numbers;

- **0845**: no changes for two years, protecting the dial-up, pay-as-you-go internet services used by more than five million UK customers;
- **0844**: more transparency, with providers required to publish detailed pricing information. Ofcom also to monitor closely services which are better suited to other number ranges;
- **improved information**, with providers giving consumers better information on the cost of calling 087/084 numbers;
- **Ofcom continuing to provide support** to the Advertising Standards Authority/Committee of Advertising Practice with their guidance requiring pricing information;
- **all adult services** to be confined to 09 numbers, and subject to regulation by ICSTIS; and
- **Ofcom reiterated its recommendation** that public bodies should not use these numbers for people on low incomes or other vulnerable groups, without giving equal prominence to a geographic alternative.

A statement on NTS numbers was published after the reporting period.

A non-emergency '101' number

In response to a request from the Home Office, Ofcom consulted in October on proposals to make the phone number '101' available as a single non-emergency number in the UK. As part of the Home Office's wider police reform proposals, 101 would give the public a number they could use to report criminal or antisocial behaviour that was not considered an emergency. Ofcom confirmed the 101 number in a statement published in March.

Ofcom did not offer any view on a call charge for the service. The Home Office confirmed its plans to charge the service at a common rate of 10 pence per call across all networks. This was subject to discussions with network providers.

Mobile telecoms

The UK mobile sector is highly competitive, with five network operators and a number of virtual network operators in the market. In line with a review carried out by Ofcom's predecessor Oftel, which found that no one company had significant market power, Ofcom's intervention in the market is limited and focused on specific consumer protection or market growth issues.

International roaming

International roaming is a service offered by mobile operators that allows consumers to use their mobile phone abroad. To provide this service, UK mobile operators need to make use of foreign mobile networks for which they incur a wholesale charge. Similarly, UK mobile operators provide wholesale services to foreign operators to enable visitors to use their mobile phone when in the UK.

During the year Ofcom undertook preliminary work to assess the wholesale international roaming market in the UK. This included a significant contribution to the work of the European Regulators Group on international roaming issues and, in particular, in response to the European Commission's proposals for regulation announced in February 2006.

Separately, in January 2006, Ofcom published a guide to help travellers and holidaymakers reduce their costs when using a mobile abroad. The guide also listed the most commonly available roaming tariffs from each of the UK's five mobile network operators.

Further details of Ofcom's international work can be found on page 56.

Mobile call termination charge controls extended

Consumers have no control over the amount mobile network operators charge other operators to connect a call to a mobile phone. To protect consumers, in June 2004, Ofcom imposed direct charge controls upon the 2G mobile operators, Vodafone, Orange, T-Mobile and O2. In June 2005, Ofcom proposed to extend these controls, due to expire in March 2006, for a further 12 months. The charge controls, which reflect the differences in spectrum used for 2G services, were proposed to remain as follows:

- for Vodafone and O2, which use both the 900 MHz and 1800 MHz bands: 5.63 pence per minute; and
- for T-Mobile and Orange, using bands at 1800 MHz: 6.31 pence per minute.

The proposals were implemented in December.

In March 2006, Ofcom published a second consultation document proposing to control wholesale mobile call termination charges – where there is evidence of market dominance – when the current regulation expires in March 2007.

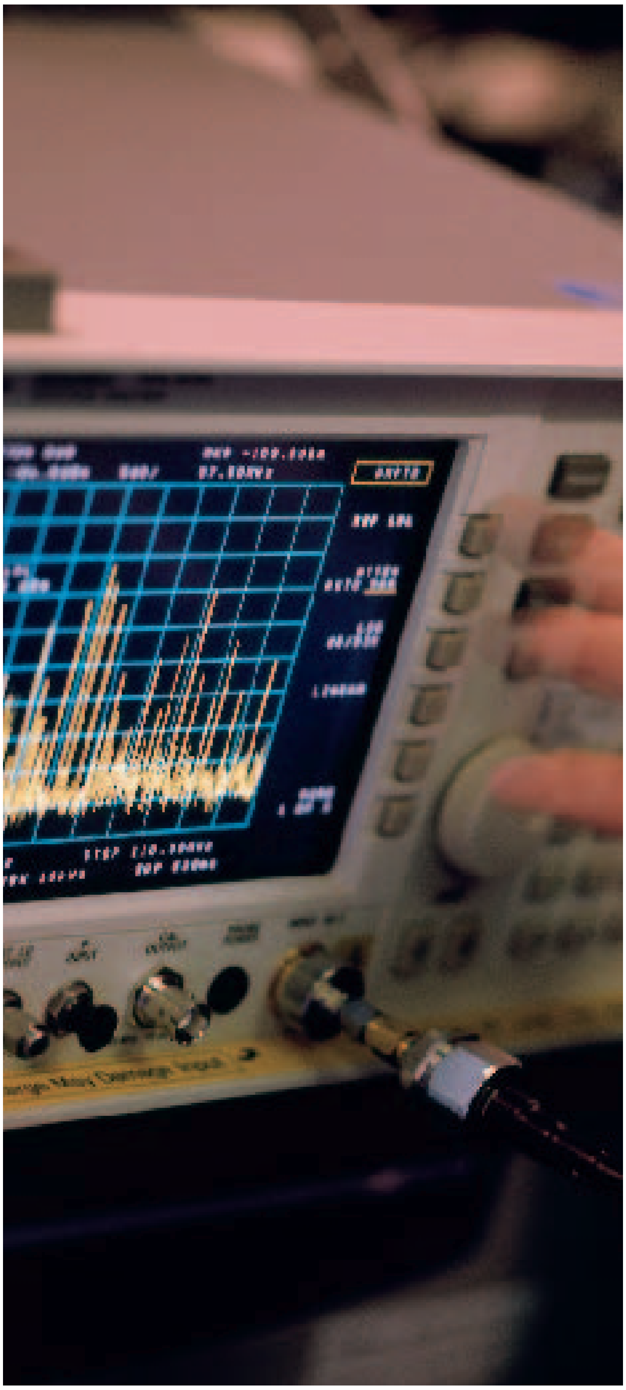
Ofcom also proposed that price controls should be imposed on dominant operators connecting calls to 3G networks (as well as 2G) because of the increasing volume of calls.

New spectrum for mobile services

In 2005/6 Ofcom made the preparations for its first spectrum auction, which took place in April. Ofcom awarded 12 Wireless Telegraphy Act licences for the spectrum band 1781.7-1785 MHz, paired with 1876.7-1880 MHz. The licences were awarded on a technology and application-neutral basis. A number of licensees expressed an interest in offering private GSM networks in office buildings and campuses using the spectrum.

For details of Ofcom's spectrum awards programme see page 31.

Spectrum



Spectrum

In November 2004, Ofcom published its Spectrum Framework Review. This set out Ofcom's intention to enable market forces to play a greater role in determining how spectrum is used, maximising the use of this valuable resource by ensuring a greater degree of flexibility. Radio spectrum is an important – and finite – national asset, upon which numerous services, such as aviation, emergency services, mobile phones, television and radio, defence and utilities, depend.

In January 2005, Ofcom published its Implementation Plan for the Spectrum Framework Review. This focused on:

- spectrum release, setting out a programme that will make available 400 MHz of prime spectrum in the next few years; and
- trading and liberalisation, making it possible for organisations to buy and sell spectrum in the market, while reducing or removing the restrictions that limit the use of spectrum for a particular purpose or technology.

In 2005/6, Ofcom made significant progress in realising both parts of the Implementation Plan.

Spectrum release

In July 2005, Ofcom published proposals to award a number of low-power Wireless Telegraphy Act licences, by means of its first-ever spectrum auction. The spectrum band 1781.7-1785 MHz, paired with 1876.7-1880 MHz, would be awarded on a technology and application-neutral basis in 2005/6.

A number of organisations expressed interest in these bands, for uses such as private GSM networks in office buildings or campuses. In November, Ofcom published a policy statement, Information Memorandum and draft regulations required to hold the auction. In February, it confirmed the regulations and these came into force in March. The auction began later in the same month when 16 companies made applications for the seven to 12 licences on offer. The auction was completed after the reporting period and 12 licences were awarded.

In October, a second auction was announced: the 412-414 MHz band, paired with 422-424 MHz. The wide range of potential uses identified for this band included private mobile radio, public access mobile radio, programme-making and special events. Ofcom published a policy statement, Information Memorandum and draft regulations in April 2006 and the consultation on the proposed regulations ended in May 2006.

In December 2005, Ofcom announced a third spectrum auction in Northern Ireland with the Commission for Communication Regulation in the Republic of Ireland (ComReg). The two regulators proposed that licences would be offered by auction for frequencies in the 1785-1805 MHz band, with its potential for innovative services such as broadband wireless access, digital video links, CCTV, mobile technologies and wireless microphones throughout Ireland. After the reporting period, Ofcom and ComReg published an Information Memorandum with details of the award procedure, rules and licence conditions.

In March 2006, Ofcom announced a fourth auction of licences, for frequencies between 1452-1492 MHz (40 MHz), on a technology and application-neutral basis with a target of making awards by March 2007. A number of possible uses for the spectrum were suggested including mobile television, broadband wireless access, satellite digital radio, programme-making and special events. The deadline for responses to these proposals was set for June 2006, ahead of a possible auction in early 2007.

During the year, Ofcom also prepared detailed proposals for consultation on an award of the frequencies 872-876 MHz paired with 917-921 MHz, in line with initial proposals made in the Spectrum Framework Review Implementation Plan. The consultation document was published after the reporting period.

Ofcom was also involved in discussions at a European level on spectrum identified for award, with a particular focus by the Radio Spectrum Committee on the 2.6 GHz band. These discussions are ongoing. Ofcom is aiming to make an award in 2007 and Ofcom appointed external consultants in March 2006 to assist with analysing the technical and economic issues relating to this spectrum.

Progress on spectrum release 2005/6

1781.7-1785 MHz, paired with 1876.7-1880 MHz

– Published Information Memorandum and regulations
– Held auction: one round of sealed bids*
– Issued 12 Wireless Telegraphy Act licences*

412-414 MHz, paired with 422-424 MHz

– Published proposals for the award
– Published policy statement on proposed auction*
– Issued an Information Memorandum*
– Published draft regulations*

1785-1805 MHz (Northern Ireland)

– Published proposals for the award by auction in conjunction with ComReg

1452-1492 MHz (40 MHz)

– Published proposals for the auction

872-876 MHz band paired with 917-921 MHz

– Published proposals for the award by auction*

2.6 GHz

– Discussions at a European level
– Appointed consultants to assist in analysing technical and economic issues

(* After reporting period)

Spectrum

Spectrum trading and liberalisation

2005/6 saw the first instances of spectrum trading in the UK. Spectrum trading allows the holder of certain categories of Wireless Telegraphy Act licences to transfer all or part of their rights and obligations under a licence to another party. In the year to 31 March 2006, Ofcom authorised the transfer of rights to use 15 licences.

Ofcom also undertook further work on how the technical conditions in spectrum licences could be refined to provide greater certainty, and at the same time allow greater flexibility of use. The proposed Spectrum Usage Rights would give spectrum users greater freedom to decide how to use the spectrum they hold, while limiting the levels of interference to neighbouring users. A consultation document was published after the reporting period.

Digital switchover

Over the last three years, consumer take-up of digital broadcasting in all its forms has increased substantially; Ofcom's research shows that the UK has the highest digital television penetration of any country in the world. By March 2006, 72.5 per cent of television households were viewing digital television across a variety of platforms: digital satellite, digital cable, digital terrestrial and broadband.

The Government announced in September 2005 that analogue television broadcasting would be phased out between 2008 and 2012, starting in the Border region and rolling out across the UK. A new organisation, Digital UK, was created to manage the transition. These decisions were informed in part by research and consultation carried out by Ofcom. Ofcom is working with Digital UK, the Government, broadcasters and other stakeholders to implement the switchover programme.

Ofcom announced its coverage plans in June 2005 for Digital Terrestrial Television (DTT). A range of options were considered relating to the technical conditions for DTT such as power levels, transmission mode and the number of transmitters to be used. Ofcom's favoured option, which was accepted by the Government, will require that the three public service multiplexes will provide DTT coverage to at least the same proportion of households (98.5 per cent) that are currently reached by analogue public service broadcasts. This will ensure that, after switchover, UK households will have access to BBC1, BBC2, ITV1 and Channel 4/S4C as well as to new channels on terrestrial television. Ofcom is also researching ways to provide better advice on options for digital television reception to all UK households, working in conjunction with Digital UK, the Department of Trade and Industry and the BBC.

The digital dividend

The switchover to digital will deliver a significant spectrum dividend as frequencies used for analogue broadcasting are released for other uses. The five terrestrial analogue channels currently use just over one-third of the most valuable bands of spectrum below 1 GHz. Digital broadcasting is six times more efficient than analogue, opening up the potential to release up to 112 MHz of spectrum in the UHF band for new uses.

The UHF band is prime spectrum; it offers a valuable balance between capacity (bandwidth) and range. It is sought-after for a wide range of services likely to be used by millions of people every day.

In November, Ofcom announced a Digital Dividend Review to examine the opportunities for innovation which switchover and the release of valuable spectrum will provide. Historically, all uses of spectrum were decided by the Government or a government agency. However, this command-and-control approach proved inflexible to changes in technology and markets.

Ofcom's starting assumption for this release of spectrum will be a market-led approach to ensure that this resource goes to the people and organisations who have the most valuable use for it. However, Ofcom will also consider whether there are circumstances where a market-led approach may not necessarily lead to an optimal outcome for the UK as a whole. If relevant, Ofcom will identify appropriate means which may be used to rectify any market failures revealed by the Review.

Effective exploitation of the digital dividend could enable the launch of a wide range of different services. These could include:

- new video and interactive mobile services delivered to handheld devices;
- wireless broadband services, with high-speed data and voice services;
- wider coverage for advanced services in remote areas;
- advanced business and broadcasting services; and
- new television channels, which could be standard or high definition.

Ofcom will launch a consultation on the DDR in the final quarter of 2006.

Deregulation and licence exemption

Amateur radio licensing reform

With more than 63,000 amateur radio users in the UK, there is a significant administrative burden – for both licensees and Ofcom – in renewing paper-based licences every year.

Ofcom therefore announced proposals in May 2005 to reform the licensing system by replacing existing licences with a new low-cost licence which is both electronic and valid for life.

Ofcom augmented the formal consultation process by commissioning MORI to canvass the views of amateur radio licence holders. When specifically asked about Ofcom's proposals to issue lifetime licences, 58 per cent of respondents supported the idea.

In February, Ofcom concluded that it would:

- issue amateur radio licences which will remain valid for life, as long as the licence details remain correct, or until the licence is revoked by Ofcom or surrendered by the licensee;
- require licensees to confirm their licence details at least once every five years;
- provide an online licensing service as an alternative to the postal service;
- issue electronic licences to users of the online licensing service; and
- continue to make paper licences available, subject to an administrative charge.

Ships' radio licensing simplified

In December 2005, Ofcom announced a simpler and modernised approach to the licensing of ships' radio, which is used for safe navigation and distress calls in emergencies. Licences would be granted for the lifetime of a particular vessel under the same owner and would be issued online free of charge, with a postal option also available. Licensees will also be asked to confirm their details at least once every ten years.

Ofcom believes that this will reduce the administrative burden on the UK's 68,900 maritime licensees.

Both ships' radio and amateur radio licences are currently processed by the Radio Licensing Centre, a wholly-owned subsidiary of Royal Mail Group. During 2005/6, Ofcom gave notice that it intends to administer this function directly in the future, led by the Ofcom Licensing Centre (OLC).

For information on the number and type of spectrum licences issued, see pages 78-82 of Section C; for details of licensing key performance indicators, see page 83 of Section C. For information about spectrum licensing cases and complaints handled by the Ofcom Contact Centre, see page 60 of this section.

Radio Frequency Identification

Radio Frequency Identification (RFID) is a generic term for technologies that use radio waves to identify objects. Unlike barcodes or magnetic strips, they do not need to be in the line of sight of a reader, making them ideal for applications as diverse as laundry tags, toll road payment systems and theft protection in shops. Advanced uses are also in prospect: in supply chains, for example, greater efficiencies through RFID tags could mean lower costs for industry and consumers. RFID can also be used to carry personal ownership information and deter theft.

The European Conference of Postal and Telecommunications Administrations (CEPT) responded to this growing use of RFID technologies by recommending that more spectrum be made available at 865-868 MHz. In August 2005, Ofcom proposed to implement the recommendation and, in line with its statutory duties, exempt RFID equipment from Wireless Telegraphy Act licensing since it was unlikely to interfere with other users of the spectrum.

Spectrum

Ofcom announced in November regulations governing power levels, frequency bands and antenna that would make interference unlikely. An impact assessment also suggested that potential net benefits to businesses and consumers could range between £100m and £200m over ten years. The RFID Exemption Regulations came into force on 31 January 2006, allowing RFID tags to be used without a licence.

Spectrum enforcement

Illegal broadcasting

Illegal broadcasting causes serious safety issues due to interference with the communications systems used by safety-of-life services such as the fire brigade and air traffic control. The problem is most acute in large towns and cities; more than 50 per cent of the estimated 150 illegal broadcasters (so-called 'pirate' radio stations) are located in London.

During 2005/6 Ofcom carried out two major operations against the illegal broadcasters.

In November, Ofcom announced the results of an operation in Greater London to take illegal broadcasters off-air. Some 53 illegal transmitters were seized; 17 transmitters and aerials disabled; and 44 illegal broadcasters ceased transmitting. The operation involved 18 Ofcom field operations colleagues working with 32 Metropolitan Police officers.

In December, Ofcom announced a similar operation in the West Midlands. Six studios used by illegal broadcasters were raided and equipment seized; ten transmitters were removed and three people were arrested. The operation involved 12 Ofcom field operations colleagues working with seven West Midlands Police officers.

In the year to 31 March 2006, Ofcom conducted 845 separate operations against 181 illegal broadcasters in the UK. Ofcom investigations led to the prosecution of 52 people.

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 Directive, or the Wireless Telegraphy Act 1949. Non-compliant equipment can cause interference and nuisance to legitimate radio users.

During 2005/6 Ofcom carried our raids and seizures of illegal equipment including mobile phone and CCTV jamming devices, and bugging equipment.

For details of Ofcom's Spectrum Operations work programme and key performance indicators, see page 84 of Section C.

Broadcasting: cross-sector

Broadcasting: cross-sector

Broadcasting Code

Audiences rightly demand high standards from television and radio broadcasters licensed by Ofcom. Historically, the broadcasting rules were covered in six separate codes set by the previous regulators. However, the codes were out of step with changes in modern society; too complex for broadcasters and the public to use; and, in many cases, rendered obsolete by changes in legislation.

Section 319 of the Communications Act 2003 and Sections 107 and 130 of the Broadcasting Act 1996 require Ofcom to create a Code to set standards for broadcasters to observe. This Code should cover areas such as harm and offence, accuracy and impartiality and fairness and privacy.

In May 2005, Ofcom published its Broadcasting Code – a single, simplified framework of rules and principles for broadcasters. The Code was developed at a time of change in the distribution of content: the majority of households now have access to digital television and radio, and programming is increasingly being delivered over the internet. These developments, changing patterns of use and wider developments in social attitudes to broadcasting have changed audience expectations.

While audiences may welcome challenging and creative content, they also want standards to be maintained and, in particular, children to be protected from unsuitable material. Ofcom's duty is to protect the under-18s, a responsibility that is shared with parents, those who look after children and young people, and the broadcasters.

The key points of the new Code, which came into effect on 25 July 2005, include:

- **Harm and offence**. The concept of taste and decency has been replaced by 'harm and offence'. The Code allows broadcasters to transmit challenging material, even if it is seen by some as offensive. However, the material must be justified by the context and the audience must be given appropriate information to help avoid or minimise offence. Children should be protected by appropriate scheduling. For the first time in a broadcasting code, the importance of context was highlighted.
- **Commercial references**. Ofcom has deregulated significantly in the area of sponsorship and commercial references, while maintaining the overriding principle of editorial independence. Product placement on television continues to be prohibited, although Ofcom acknowledges the pressure on broadcast advertising as a key source of funding for broadcasters. This is subject to consultation and is covered in the Television section of this report.
- **Protecting the young**. A new section puts greater emphasis on safeguarding this group, and in particular children (defined as under-15s) who must be protected by appropriate scheduling. Other means of protection include mandatory PIN-accessed programming, which Ofcom believes can allow more viewer choice – for example, 15-certificate films can now be broadcast 24 hours a day – while protecting children. However, with evidence that some children access their parents' or carers' PIN numbers without their knowledge, the Code does not allow R18 material ('hard-core' pornography) to be broadcast.

For details on programme complaints, fairness and privacy, and content and standards cases, see page 85 of Section C. For cases and complaints handled by the Ofcom Contact Centre, see page 60 of this section.

Media literacy

The Communications Act 2003 requires Ofcom to promote media literacy, which Ofcom defines as 'the ability to access, understand and create communications in a variety of contexts' and it is specifically referenced in the new Ofcom Broadcasting Code.

In 2004/5 Ofcom published its plans for meeting this duty, with a media literacy audit as a key priority. In March 2006, Ofcom published results of this research, which sought the views of 3,224 people from across the UK, focusing on the four main digital platforms (and, where relevant, analogue TV and radio).

The audit identified a number of themes, including concern about content on different platforms; different age groups' ability to access media and communications services; and awareness of digital services.

Specific reports on media literacy among children, minority ethnic groups, older people, people with disabilities and those in the devolved Nations and the English regions were published between March and May 2006.

Broadcasting: cross-sector

Television channel and radio station sponsorship

Sponsorship of commercial television and radio programmes is now a familiar part of the broadcasting landscape, having been permitted for more than 15 years. In February 2006, Ofcom consulted on proposals to allow sponsorship of commercial television channels and radio stations. The consultation proposed that channel and station sponsorship be permitted subject to the following restrictions:

- no television channel or radio station that carries news (and for television, current affairs) may be sponsored;
- no organisation prevented from sponsoring programmes – for example, a tobacco company – may sponsor a channel or station;
- no organisation excluded from sponsoring a programme type may sponsor a channel or station that carries that particular kind of programming;
- neither the sponsor of a channel or station, nor its products and services, may be given undue prominence on that channel or station; and
- a sponsor's name should not be incorporated into the channel or station name.

The consultation closed in April 2006.

Broadcast training and equal opportunities

The Communications Act requires Ofcom to promote training and development across the broadcasting industry, and in May 2005 Ofcom appointed Ralph Tabberer, Chief Executive of the Teacher Training Agency, as the first Chairman of the Broadcasting Training and Skills Regulator (BTSR).

The BTSR is a new joint initiative between Ofcom and Skillset (the Sector Skills Council for the Audio Visual Industries) to create a co-regulatory system for training and development.

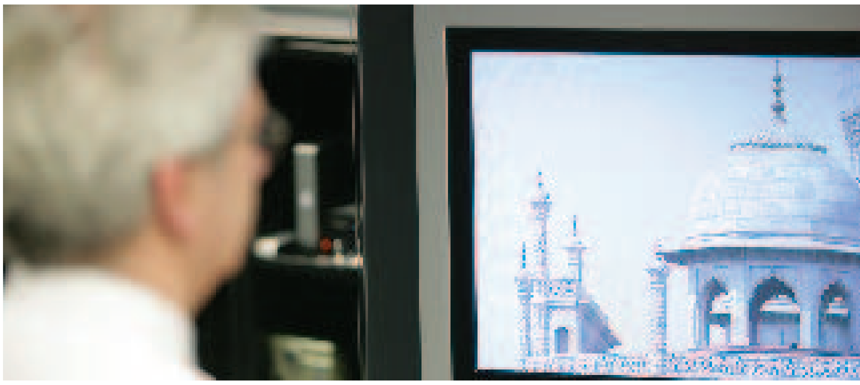
In July, six new members of the BTSR were announced, to serve alongside Ralph Tabberer and bring experience in training, business, education, public service and various broadcasting sectors.

The BTSR has:

- started work to develop a new method of assessing training provision in the industry, with an emphasis on establishing how training can benefit broadcasters;
- reached an agreement with television broadcasters on a new method of funding the training of freelance professionals; and
- started work on researching the skills gaps and training needs in the commercial radio sector.

Ofcom also published its equal opportunities 'toolkit' for broadcasters. It contains practical advice, examples of best practice and other suggestions designed to help broadcasters benefit from the experiences of others. The Communications Act requires Ofcom to promote the importance of equal opportunities and ensure that every licensed broadcasting organisation has formal arrangements in place.

Broadcasting: television



Broadcasting: television

Public service television broadcasting

The future of the BBC

Ofcom completed its review of public service broadcasting (PSB) in 2004/5. It concluded that there were three overarching themes of PSB: a competitive marketplace; a plurality of PSB commissioning and production; and a sufficiently flexible system for the provision of PSB to change over time as the needs of citizens evolve.

The review said that the BBC should remain at the heart of PSB, funded by the licence fee model. It should also have a special responsibility to invest in distinctive content which strives to meet public service purposes and characteristics.

In June 2005, Ofcom also published its response to the Government's Green Paper on the Review of the BBC Royal Charter. The submission said that the Government should assure the future of PSB, with the BBC as the cornerstone of the system, but with a range of other competing suppliers of programming and content able to prosper through the transition to digital television. Ofcom said that it is essential that the BBC is not allowed to become isolated in a growing – and exclusively commercially-focused – sector.

Ofcom also recommended that the Government should:

- examine potential sources of funding – and new models of accountability – to finance public service programming and content beyond that of the BBC; and
- ensure its review of public service funding is brought forward, to be completed by 2010, two years ahead of the completed digital switchover.

In March 2006, the Government published its White Paper on the future of the BBC. It said that the BBC will be overseen by a new Trust, separate from the BBC management. The White paper also said that:

- new BBC services – and significant changes to existing BBC services – will be subject to a new public value test. This test will include a market impact assessment to be carried out by Ofcom; and
- a new approach to competition regulation of the BBC should be established. In consultation with Ofcom, the

Trust will be required to draw up and operate a new system of codes in specific areas (for example, cross promotion) which raise potential competition concerns.

Ofcom has started work with the BBC Governance Unit on the practical implementation of the new arrangements.

The White Paper also expressed support for continued plurality in the provision of PSB to and through digital switchover, and committed the Government to a review within the next Charter period of the wider use of public money – including licence fee money – to support PSB beyond the BBC. In addition, the White Paper welcomed Ofcom's further work in this area – namely, more detailed work on the Public Service Publisher and the financial review of Channel 4. Ofcom committed to further work on these issues in its Annual Plan for 2006/7. The work will seek to define how the Public Service Publisher could operate in practice, and on the future prospects for Channel 4 as a PSB.

Television production

The UK has some of the highest levels of 'home-grown' television in the world. UK television producers made more than 27,000 hours of programmes during 2004, with broadcasters spending more than £2.6 bn (excluding news) on programming specifically created and broadcast by them.

Under the Communications Act, Ofcom is required to ensure a diversity of programme supply and a broad representation of the communities and cultures of the UK.

In January 2006, Ofcom published a review of the UK's television production sector. Its main proposals were to:

- retain the 25 per cent quota for independent production – an important source of certainty for the sector – for at least the next five years;
- support the BBC's Window of Creative Competition. This is critical to the future of the external production sector, with internal and external producers competing for BBC commissions over and above the independent production quota;
- retain the quotas for production outside London, and that the BBC should aim for 50 per cent of network production to be sourced there;
- remain open to changes in how to define a qualifying 'independent producer', although no preferable definition had been advanced; and
- establish a new approach to new-media rights, with a 'primary' window in which rights acquired by a public service broadcaster apply across any distribution platform. A subsequent limited 'holdback' period would protect broadcaster exclusivity and brand value where needed by enabling the broadcaster to restrict the exploitation of rights by the producer.

The consultation closed in March 2006.

Programming for the Nations and Regions

The Communications Act also requires Ofcom to report on the effectiveness of the existing television public service broadcasters – the BBC, ITV, Channel 4, S4C, Five and Teletext – in the delivery of their PSB obligations. It also requires Ofcom to make recommendations for maintaining and strengthening the quality of PSB in the future. Regional programming is one of the core PSB requirements set out in the Act.

In June 2005, Ofcom published the conclusions of its consultation on the provision of dedicated programming for the Nations and Regions as part of the final Phase 3 report of Ofcom's Review of Public Service Television.

Decisions and recommendations included:

- a standard minimum weekly requirement for regional news and non-news across Wales, Scotland and Northern Ireland;
- a range of measures to be introduced by Ofcom to support these requirements, including exempting national licensees from paying for network programmes they do not broadcast, in order to meet regional licence obligations; and relaxing guidelines on co-productions, including allowing Scottish and Grampian TV to share all non-news programmes;
- more scheduling flexibility for current affairs, allowing national licensees to broadcast regional content in place of some networked content; and
- a further reduction to minimum non-news requirements, when the first UK region achieves digital switchover.

Recommendations for indigenous language broadcasting in the Nations included:

- the view that dedicated digital services are the most effective way to serve indigenous speakers;
- in Wales, the BBC and S4C should develop a new relationship, driven by transparency, financial commitment and editorial control;
- in Scotland, sufficient funding and in-kind support for a Gaelic digital channel could be secured from a number of sources; and
- in Northern Ireland, the goal should be a dedicated Irish language digital service, building on the main Irish service in the Republic of Ireland, TG4.

Financial terms of Channel 3 and Channel 5 licences

In June 2005, Ofcom published its conclusions after its review of the financial terms of the licences held by ITV, SMG, Ulster Television and GMTV, and the Channel 5 licence.

This decision was the last in a series made by Ofcom over the previous two years; taken together, they allow commercially funded public service broadcasters the scope to plan with certainty for all-digital services across the UK.

Annual payments received by HM Treasury for all Channel 3 and Channel 5 licences have fallen steadily. In 2003, under existing licence terms, they totalled approximately £270m. In 2004, the total was £230m, mainly due to the growth of digital households. In 2005, with further digital multi-channel growth, this would have amounted to £180m under existing terms.

The new terms offered to the licensees, and accepted in July, were backdated to 1 January 2005 and run until 31 December 2014. Ofcom estimated that total payments for all Channel 3 and Channel 5 licences in 2005 would be £90m.

Access to TV

The Communications Act requires Ofcom to ensure that broadcasters cater for people who are deaf or hard-of-hearing, blind or partially sighted, or who have a dual sensory impairment. The Act says that Ofcom must publish and review a code setting out how broadcasters should promote television that is accessible and enjoyable for people with these needs.

Since the Code on Television Access Services was published in July 2004, there has been a significant increase in the number of channels meeting and, in many cases exceeding, their obligations to provide access services.

In March 2006, Ofcom launched a consultation reviewing the Code. It concluded that although the basic structure remains appropriate, further work was required to make sure that the provision of signing services meets the needs of viewers who depend on it.

Television advertising

The Contracts Rights Renewal remedy

In its Annual Plan 2005/6, Ofcom proposed a review of the UK advertising sales market, as originally suggested by the Competition Commission at the time of the Carlton/Granada merger.

However, after a preliminary assessment of the market, Ofcom announced in December 2005 that it did not see the need for a full review at this stage. Ofcom had received no complaints over the running of the advertising sales market, or calls from the advertising or broadcasting industries for a review; there was no strong evidence of the market working to the detriment of consumers; and the Contracts Rights Renewal remedy (CRR) had had a significant effect on the market.

The CRR remedy, put in place in 2003 in the light of the merger, imposed conditions on ITV intended to make sure that advertisers and media buyers would not be worse off after the merger than before. The Office of Fair Trading is responsible for the CRR remedy, and any decision to review the remedy would rest with it. Ofcom will, however, continue in its role to monitor the remedy – and the operation of the Independent Adjudicator – to assess its wider impact.

Advertising of food and drink products to children

There has been growing public concern about the increase in childhood obesity in recent years. This increase has been driven by a number of factors including changes in lifestyle and diet, and in the way food is advertised and promoted.

Ofcom was asked by the Department of Health and the Department for Culture, Media and Sport to examine the case – and the options – for restricting television advertising of foods and drinks to children. In particular, this focused on the over-consumption of 'HFSS' food and drinks – those that are high in fat, salt or sugar.

Ofcom first published wide-ranging research into the subject in July 2004. This showed that advertising had a small direct effect on children's food preferences, as well as indirect effects which were difficult to quantify but likely to be larger. Ofcom continued to work with consumer bodies, broadcasters and its co-regulatory partner the Broadcast Committee of Advertising Practice. It also consulted the Food Standards Agency, which provided a possible model that could be used to differentiate between different types of food and drink products.

In March 2006, Ofcom concluded that there was a case for tightening the rules on advertising food and drink to children. It set out four alternative proposals:

1. timing restrictions on advertising specific food and drink products;
2. timing restrictions on advertising all food and drink products;
3. a limit to the amount of food and drink advertising per hour allowable during children's and family viewing times; and
4. an open invitation to advance a new proposal, either drawing from elements above or suggesting a completely fresh approach.

Ofcom believes that the proposals strike a balance between having a positive effect on children's attitudes and behaviour, without disproportionately affecting the funding of children's programmes or the legitimate activities of food manufacturers and retailers.

The consultation ran until June 2006.

Future funding of commercial television

Product Placement

The principle of separation between advertising and editorial material on television has been present in regulation since the first commercial appeared on the UK's television screens in 1955.

The way in which the 'separation principle' has been interpreted and applied has evolved over time to keep pace with commercial developments and audience expectations. Advertising is no longer limited to spot advertising; sponsorship, for example, is now a well-regarded feature of commercial television, generating revenues for broadcasters.

The separation principle is enshrined in the European Commission's Television Without Frontiers Directive, which governs audio-visual content regulation in Europe. Therefore, product placement – which involves including, or referring to, a product or service in return for payment or some other valuable consideration – is prohibited.

In December 2005, the Commission published a proposed draft revision to the Directive which proposed to liberalise the rules governing television advertising which would allow certain forms of product placement on television.

Ofcom believes that there is merit in a cautious approach to introducing product placement in the UK because new technologies such as personal video recorders, as well as audience fragmentation and video-on-demand, pose challenges to the value of traditional spot advertising. Commercial broadcasters, and particularly free-to-air broadcasters with no revenue from subscription channels, have legitimate concerns over future programme funding.

In December, Ofcom launched a consultation on a restricted set of uses for product placement. A statement on product placement was published after the reporting period.

Commercial television appeals for donations

The Ofcom Broadcasting Code currently prevents commercial television broadcasters from appealing for donations to help make their programmes. Radio broadcasters are not subject to the same restrictions, therefore Ofcom believes that it is appropriate to consider whether in future there should be a uniform approach to regulating this form of funding so it is applied equally across all platforms.

Ofcom has not formed a view on whether the advantages of lifting the current restrictions outweigh any disadvantages. Research carried out by Ofcom suggested that viewers are concerned about various aspects of appeals on television. However, in 2005/6 Ofcom prepared a consultation document, published outside the reporting period, which set out a number of safeguards that would need to be considered in the event that the current restrictions were lifted.

The potential safeguards included:

- ensuring that the audience is told the purpose of the donation, which must be accounted for separately and later used for its stated purpose;
- applying the current rules governing religious broadcasters to appeals made by them;
- ensuring that appeals do not create unrealistic expectations of what might be achieved by donor contributions; and
- a ban on broadcasters accepting donations from political bodies.

Competition issues in television broadcasting

Technical platform services

Since 1997, BSkyB has been subject to regulation over the amount it charges (and the terms it offers) broadcasters and operators of interactive television who wish to make their content available on the satellite platform. This regulation of technical platform services (TPS) was established under Ofcom's predecessor, Oftel.

In November 2005, Ofcom consulted on proposals to revise the guidelines. Ofcom believed that the previous approach adopted by Oftel did not provide sufficient clarity or certainty for broadcasters. In the absence of transparent guidelines on TPS charging, it is difficult for customers to plan for these charges.

The consultation closed in February 2006. In April, Ofcom published a draft explanatory statement and revised guidelines. These were subject to further consultation.

Cross-promotional activities

Cross-promotion is the practice of using one television channel to promote another: for example, ITV1 promoting programmes for ITV3, or Channel 4 promoting E4 and its availability on cable, satellite and Freeview.

Ofcom inherited the current rules from the Independent Television Commission and has a duty to review them and make sure that they remain relevant and appropriate.

In December, Ofcom published proposals for the future regulation of cross-promotion. It proposed to remove the requirement that a broadcaster must have a 30 per cent shareholding in a channel or service it promotes, and to replace it with more flexible guidance. It also proposed to use the Broadcasting Code wherever appropriate, rather than separate dedicated rules, in relation to the content of cross-promotions. However, Ofcom proposed two rules:

- to limit the subject of cross-promotions to broadcast-related services; and
- a requirement for ITV1, Channel 4 and Five to maintain neutrality between digital retail television services and digital platforms.

A statement on cross-promotion was published after the reporting period.

Broadcasting: radio

Broadcasting: radio

Radio Review

In October, Ofcom published its Radio Review consultation document. Its aim was to enhance choice, diversity and innovation for consumers at UK, national, regional, local and community levels; and allow radio to grow in a digital age.

The Review set out proposals on the future regulation of UK commercial radio and asked for further views on plans to encourage the development of DAB digital radio, locally and nationally. Ofcom proposed that DAB was the only platform bringing the benefits of digital listening to both home and portable radios, and to guarantee a range of free-to-air services to the majority of the UK.

In December, Ofcom published two main statements in response to the Radio Review. First, it announced that it would allocate:

- three blocks of VHF Band III spectrum to fill the gaps in local multiplex coverage, giving every part of the UK the opportunity to receive local DAB digital radio (including both commercial and BBC local and national radio services); and
- one block to a further national commercial multiplex to provide additional choice for as many listeners as possible.

Second, Ofcom announced a consultation to seek views on the licensing process for this additional local and national DAB capacity.

In February, Ofcom announced its approach to the regulation of commercial radio, including:

- the procedure for handling format change requests for analogue local commercial radio services;
- Ofcom's approach to regulation output, and the requirement for stations to establish a Public File reporting their activities;
- a requirement that broadcasters follow 'Localness Guidelines', setting out guidance on how stations can best deliver local elements of their output; and
- the removal of restrictions relating to daytime automation on stations, news hub arrangements, and where stations are located within licensed areas.

Radio mergers

In 2005/6, Ofcom undertook a statutory assessment of Emap's acquisition of Scottish Radio Holdings (SRH).

Ofcom concluded that no changes would be needed to any of SRH's 21 local analogue licences to protect the provision of services after the acquisition. However, Ofcom added that if the acquisition went ahead as envisaged, it would breach certain rules governing ownership of local digital multiplexes and local digital sound programme services.

Ofcom therefore issued a direction to Emap to ensure it complied with these rules.

FM and community radio licensing

In 2005/6, Ofcom continued with its programme of FM commercial radio licensing under a new streamlined process. Ofcom advertised one smaller (non-metropolitan) licence every month and one larger (metropolitan or regional) licence every two or three months. The licence awards were made by the Radio Licensing Committee, a sub-committee of the main Ofcom Board. In the year to 31 March 2006, Ofcom awarded 15 FM commercial radio licences.

Ofcom completed the first round of community radio licensing for not-for-profit services, focused on delivering specific social benefits. These licences use relatively low-powered transmitters to cover a small geographical area. In the year to 31 March 2006, Ofcom issued 92 community radio licences (see table overleaf).

In 2005/6, Ofcom also announced the membership of its Community Radio Fund Panel. The three-member panel was established by the Government to provide financial support to community radio broadcasters.

Broadcasting: radio

FM radio licence awards 2005/6

Durham
Banbury
Manchester
Norwich
Ballymena
Torbay
Swindon
Solent
Barrow-in-Furness
Swansea
Northallerton
Ipswich
Warwick
Shrewsbury
Plymouth

Community radio licence awards 2005/6

Havant
Stoke on Trent
Pontypridd
Neath and Port Talbot
Central Southampton
Hedge End, Botley and West End, Hampshire
Portsmouth
Newport, Isle of White
Glasgow (three services)
Cumbernauld
Nottingham (three services)
Normanton, Derby
Leicester
Market Harborough
Vale of Belvoir
Bradford
Halifax
Ardwick, Longsight, Levenshulme, Manchester
Wythenshawe
Chorley
Rochdale
Norwich
Aberdeen
Orkney Islands
Isles of Scilly
Leeds
Oldham
Tameside
Stockport
Salford
North-east Birmingham
Winson Green, Birmingham
Aston, Birmingham
Small Heath, Birmingham
West Bromwich
Stourbridge
Wolverhampton
Belfast (two services)
Lisburn
Newry
Downpatrick
Banbridge
Alnwick
Newcastle upon Tyne
Kirky Lonsdale
Withernsea
Gloucester
Worcester
Pontypool
Central and East Brighton
Colchester
Plymouth
West Hull
Bankside, central London
Hackney
Southall
Verwood, East Dorset
Brentwood, Essex
Harold Hill, Essex
Forest Gate, London
Stratford, London
Manor Park, London
Bexleyheath, Kent
Slough
Hayes, Middlesex
Southall, Middlesex
Hammersmith, London
Stonebridge, London
Edinburgh
Leith
Dalkeith, east and central
Midlothian
Barnard Castle, County Durham
Wetherby
Sheffield
Burngreave, Sheffield
Harlow, Essex
Bristol
Canterbury
Bournemouth
Dewsbury
Ipswich
Lincoln
Luton
Salisbury Plain (two services)
St Albans
Wrexham, Wales

International

Ofcom's activities – and those of the companies it regulates – are increasingly influenced by international developments. Much of telecommunications regulation, and an increasing proportion of our activities in the spectrum and broadcasting areas, is directly affected by EU legislation.

In 2005/6 Ofcom played a key role in the European Regulators Group (ERG), which seeks to achieve consistent application, in all Member States, of the provisions set out in the Directives of the new regulatory framework. In January 2006 Ofcom Senior Partner Kip Meek was appointed as chair of the ERG for 2006.

Ofcom identified three international priorities to engage on:

- the review of the EU Regulatory Framework for Electronic Communications;
- European policies on spectrum management; and
- the replacement of the existing Television Without Frontiers Directive with a new Audiovisual Media Services Directive.

Regulatory Framework For Electronic Communications

Ofcom's regulation of the telecoms sector is mainly derived from the European Common Regulatory Framework. This imposes a range of obligations on the authorisation of services, general conditions which are applied to communications providers, and the analysis of telecommunications markets when imposing specific conditions on companies with market power. The Framework also sets out rules on the authorisation of radio spectrum use.

The European Commission announced in November a consultation on the operation of the European Framework. Ofcom contributed both to the ERG and the UK's response to that consultation, arguing that the existing Framework is essentially sound, but requires more rigorous implementation in many Member States. Ofcom also worked with the ERG and UK Government to identify specific improvements to the Framework which should be considered during the course of the Review.

Spectrum management

Spectrum does not respect national boundaries; so in meeting its spectrum management duties, Ofcom takes an active role on behalf of the UK in debates about international spectrum co-ordination, policy and legislation.

In the year to November 2005, Ofcom held the chairmanship of the EU's Radio Spectrum Policy Group (RSPG). During this time, the RSPG called for a more flexible approach to spectrum management; a significant step forward in developing a market-based approach to spectrum management across the EU.

Delivering the UK's objectives on digital switchover, the digital dividend and the Radio Review are dependent on securing international agreement over the use of the VHF and UHF broadcasting spectrum. Ofcom led discussions at bilateral, European and international levels ahead of the Regional Radio Conference in May/June 2006 to co-ordinate international decisions on radio spectrum management.

Audiovisual Media Services Directive

The existing Television Without Frontiers Directive sets EU-wide rules for trans-border broadcasting. It includes restrictions on television advertising, obligations for broadcast channels to include a certain proportion of European-made productions, and minimum standards on protection of minors and incitement to hatred. Ofcom implements and enforces the Directive in the UK.

In September, the EC announced it would revise the Directive, and published its proposed text for a new Audiovisual Media Services directive in December. The changes included a proposal to extend the scope of statutory regulation to include non-broadcast audio-visual content on the internet – a move which both Ofcom and the UK Government consider to be inappropriate. Throughout the process Ofcom has analysed and advised the Commission and the UK Government on the possible effects of the proposals.

Ofcom agreed that there was a sound case for reforming the existing Directive as it applied to broadcast services. However, Ofcom and the UK Government have significant concerns about extending the scope of content regulation from traditional television broadcasting to areas such as online video content, including personal video blogs. It also warned that the costs of extending the scope of the Directive could be significant to the point where the new media industry could suffer detriment. Ofcom has continued to contribute technical advice to the UK Government, informing its position in the Council Working Group negotiations.

Ofcom also provided the EC with research and evidence as part of the Commission's investigation into the collective sales agreement operated by the FA Premier League.

Investigations programme

Investigations and disputes

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, in some instances, by 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.

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 (OFT), 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.

Within the investigations programme, Ofcom also considers consumer complaints under the Unfair Terms in Consumer Contracts Regulations 1999 and under Part 8 of the Enterprise Act 2002 for the communications sector.

In the previous reporting period, Ofcom published guidelines setting out its approach when investigating competition complaints and resolving disputes between companies. The guidelines provide companies with a clear, easy-to-follow toolkit explaining how both small and large companies should prepare the evidence required before Ofcom will take forward a formal investigation.

Since the guidelines were issued, Ofcom has carried out a full review of its investigations function and, as a result, has refined its approach. This led to Ofcom issuing revised guidelines for consultation after the reporting period. They reflect the outcome of the review and Ofcom's growing body of practice and established decisions in this area, and the developing jurisprudence of the Competition Appeals Tribunal.

Ofcom continues to seek to reduce the costs to industry of its work, and to gain the best value from limited resources to deliver the best outcomes for consumers. Unsubstantiated complaints, or those which could be better resolved elsewhere, are dealt with quickly and at an early stage. This allows Ofcom to focus on the most serious allegations inhibiting fair and effective competition in the sector, and the most serious cases of harm to consumers.

Ofcom has continued to publish six-monthly reports, setting out in detail the work of the investigations programme. The third of these reports was published in November 2005 and covered the period from April to the end of September. After the reporting period Ofcom published its fourth report, covering the period from October 2005 to the end of March 2006.

Summary of complaint and dispute activity during the period under review

Between 1 April 2005 and 31 March 2006, Ofcom received 301 complaints or dispute referrals. In addition, Ofcom identified 18 issues for possible investigation on its own initiative. In total, 247 of these cases were rejected or redirected (either within Ofcom or to another organisation) upon receipt. Of the remaining 72, Ofcom moved 67 into its enquiry phase (during which Ofcom decides whether to launch a full investigation into a complaint or to resolve a dispute) and five were moved directly to a full investigation. Of the 67 cases considered in enquiry phase, 33 resulted in full investigations being opened by the end of the reporting period, with three cases still in the enquiry phase.

Taking all requests received (including issues identified at Ofcom's own initiative), 38 cases (or 12 per cent) were found to warrant full investigation with a further three cases awaiting a decision.

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

A total of 41 full investigations were opened during the reporting period of which 22 were closed by 31 March 2006. Ofcom closed a further 17 investigations that had been opened in the previous reporting period. For details of investigations key performance indicators, see page 87 of Section C.

Supporting stakeholders

The Ofcom Contact Centre

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

During the period under review, the OCC answered more than 176,250 telephone enquiries and received more than 54,550 completed internet forms, emails, letters and faxes. The OCC was asked by callers or correspondents to deal with around 212,900 separate cases and complaints. Of these:

- around 151,400 related to telecommunications (71 per cent);
- around 28,700 related to spectrum licensing (13.5 per cent);
- around 19,150 were general enquiries (9 per cent); and
- around 13,300 related to broadcasts (6.5 per cent).

During the reporting period, the OCC 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 overall number of complaints about broadcasting reduced significantly as a result of fewer single programmes generating high volumes of complaints from viewers and listeners.

The OCC 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 90,700 callers listened to this recorded advice.

Colleagues within the OCC resolved 93 per cent of all calls, internet forms, emails, letters and faxes without escalating the issue to other parts of Ofcom. The remaining 7 per cent were resolved within other functions across Ofcom, with these cases being tracked by the OCC through to an ultimate resolution.

Telecommunications

Some 32 per cent of all customer complaints in telecommunications were about:

- 'slamming', where a customer has been 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; and
- 'tag-on-line' where a customer's phone line is marked, or 'tagged', as being used by one broadband internet service provider. This can cause difficulties with the handover of the connection to a different provider.

Other customer complaints in telecommunications included:

- consumers being charged for cancelled services;
- inadequate customer service by service providers;
- problems switching telephone service provider;
- the time taken, or failure, to repair a service;
- problems with loss of service; and
- issues relating to contract terms.

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

Spectrum

The OCC spectrum licensing team dealt with more than 28,700 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.

The team was also responsible for the issuing of 1,244 licences to customers.

Broadcasting

The OCC broadcasting team logged 13,300 complaints from the public. Any complaints not resolved by the team were passed to the Content and Standards Group for further investigation.

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

Programmes generating the most complaints were:

- *Big Brother 6*, and *Celebrity Big Brother*;
- *Coronation Street*;
- *Emmerdale*; and
- coverage of various news items throughout the year.

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

For OCC key performance indicators, see page 87 of Section C.

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, there are Ofcom offices in Wales, Northern Ireland, Scotland and the English regions; a number of advisory bodies; and a team responsible for the management of public and political relationships throughout the UK and abroad.

Nations and Regions

Ofcom has three national offices, led by a senior director in Glasgow, Cardiff and Belfast, 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 localised issues. These include the availability of broadband and digital television in regional and remote communities, and issues concerning telecommunications and spectrum use.

Advisory bodies

Details of the work of the Consumer Panel are given on page 102.

Details of the work of the Ofcom Spectrum Advisory Board are given on page 103.

Details of the work of the Advisory Committee for Older and Disabled People are given on page 103.

Details of the work of the Committees for the Nations and Regions are given on page 104.

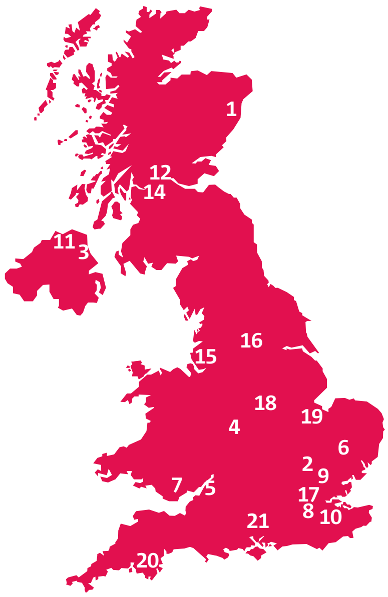
Public and political relations

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, as appropriate, with Ofcom's Directors in the Nations and co-ordinates Ofcom's European and international relationships and related activities. This work extends to European and international stakeholder relations.

Ofcom National and Regional Offices

1 Aberdeen
2 Baldock
3 Belfast
4 Birmingham
5 Bristol
6 Bury St Edmunds
7 Cardiff
8 Caterham
9 Cheshunt
10 Canterbury
11 Coleraine
12 Falkirk
13 Falmouth
14 Glasgow
15 Haydock
16 Leeds
17 London
18 Nottingham
19 Peterborough
20 Torquay
21 Winchester



Support services

Supporting Ofcom

Ofcom's work depends on the support of colleagues from a range of professional functions and disciplines.

Finance

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

- management of Ofcom's finances and associated due diligence;
- management of the statement of charging principles for the coming financial year;
- implementation of the statement and collection of licences and administration fees;
- collection of licence fees for spectrum and additional payments for broadcasting on behalf of HM Treasury;
- preparation of Ofcom's annual accounts;
- ensuring prompt payment of suppliers;
- safeguarding Ofcom's assets; and
- ensuring value for money through its procurement strategy.

Secretariat

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

- support for the Ofcom Board, Content Board, Spectrum Advisory Board (OSAB) and other Ofcom Advisory Committees;
- support for the Executive Committee and a number of other internal decision-making groups;
- provision of internal advice on administrative law, due process and governance issues;
- responsibility for records management and compliance with the Data Protection Act and Freedom of Information Act; and
- maintenance of the Register of Interests and Register of Gifts and Hospitality.

Human Resources

The Human Resources team provides specialist advice and support to the organisation on a range of people-management matters. Its role includes:

- provision of expert advice to line managers on specific people-management issues;
- implementing the recruitment strategy, including developments to support Ofcom's wider work in diversity;
- development of learning and development solutions to support professional training and enable career development;
- taking a lead role in engaging with the Joint Consultative Group, consisting of the elected Ofcom Colleague Forum and the recognised trades unions; and
- development and maintenance of online business support systems to allow more effective line management responsibility for routine HR tasks such as recording annual leave.

Communications

The Communications team is responsible for:

- the management of Ofcom's relationships with media, industry stakeholder groups and analysts;
- the production of corporate publications, such as the Annual Plan and Annual Report;
- the management of stakeholder events;
- the management of the Ofcom website;
- the production of all online and print publications; and
- internal communications within the organisation.

During the period under review, Ofcom issued many major publications in print; around 67,000 copies of these were distributed to industry and members of the public. Around 1,000 Ofcom documents were published on the website in 2005/6.

Research commissioned from independent media evaluation analysts demonstrated that, on average, 60 per cent of UK adults encountered newspaper or magazine reports on

Ofcom's activities each month. Average monthly exposures per adult were 9.1. Of these articles, on average 37 per cent were in national newspapers, 31 per cent were in UK regional and local newspapers, 13 per cent were in specialist or trade journals, 17 per cent were in non-industry sector trade journals and two per cent were in consumer/ leisure magazines.

Information Services (IS)

The Ofcom IS team and its contractors are responsible for managing Ofcom's needs in:

- desktop support;
- computer network infrastructure;
- website and intranet infrastructure support;
- desktop telephony;
- mobile telephony;
- wireless data services;
- audio-visual presentation support; and
- applications development and support.

When Ofcom was created, it inherited a joint venture between the Radiocommunications Agency and LogicaCMG for the provision of information services support. In September, Ofcom brought these desktop and infrastructure services in-house, extending support hours, improving quality and reducing costs.

In December, Ofcom selected Capgemini UK as its preferred bidder for an IS contract for running Ofcom systems and integrating or replacing the organisation's legacy systems. The systems replacement programme, called Project Unify, will involve replacing around 50 individual IT applications with new integrated technology across the organisation in areas such as licensing, field operations, finance, HR, project management, document creation, management and publishing, and the Ofcom Contact Centre.

Directorate of Planning and Development

The Planning and Development team aims to ensure Ofcom's workload is delivered within resource and time constraints. Its role includes:

- the provision of visibility of workload and analysis of priority issues;
- the tracking of progress of all strategic projects;
- where appropriate, enhancing planning systems and processes;
- the preparation of management information for the Executive Committee and Board; and
- management of a regular risk review for the whole of Ofcom.

Facilities

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

- all Ofcom offices across the UK;
- the management of all other general physical assets;
- health and safety in the workplace and in field operations; and
- physical security.

Operating and Financial Review

Performance and evaluation

In 2005/6 Ofcom continued to focus on delivering operating savings and improving internal efficiency. By delivering projects below our planned operating budget and rationalising the property portfolio we were able to reduce the overall cost of regulation to the sector, fund part of our inherited pension fund deficits and invest in the organisation's long-term IS needs.

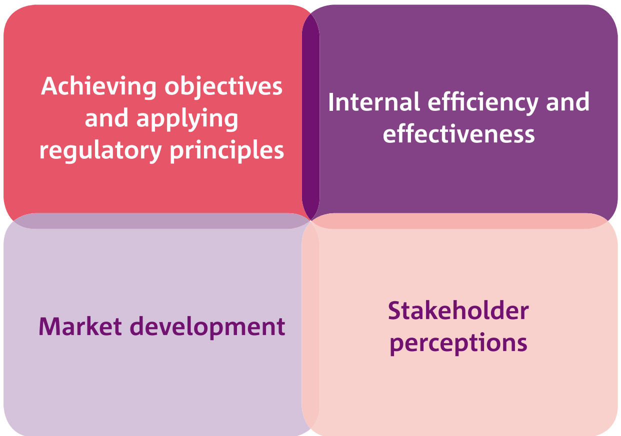
Key operating and financial highlights

- 115 key policy consultations and statements delivered, against 76 planned.
- Ofcom decisions reduced or targeted regulation more often than they increased it.
- Two consultations received approximately 2,400 responses, with the remaining 46 consultations receiving 1,015 responses.
- Impact assessments carried out in 40 consultation documents.
- Operating costs for 2005/6: £129.0m.
- £4.0m returned to stakeholders from savings in operating expenditure.
- Repaid £17.8m of DTI loan.
- Disposal of legacy property for £2.9m.

Evaluating Ofcom

Ofcom's Annual Plan consultation for 2005/6 illustrated the framework for evaluating our performance. See Figure 1.

Figure 1: Ofcom's framework for evaluation



Measuring the performance of a regulator is not straightforward. Whereas private companies create value for their shareholders by maximising profits, Ofcom, as a public corporation, must serve the public interest by meeting our twin duties to the consumer and the citizen. This is not always easy to measure. For example:

- it can be difficult to extract the influence the regulator has had on market developments, compared to a whole range of other external influences; and
- the question of whether Ofcom is meeting its duties and applying its regulatory principles is to an extent a subjective one – measuring this in an objective, quantifiable way is by its nature not easy.

Nonetheless, Ofcom believes it is important to develop ways of assessing performance, using metrics where appropriate. Ofcom will continue to develop its metrics over time.

In this report we focus on the top half of the framework in Figure 1, namely:

- achieving objectives and applying regulatory principles; and
- internal efficiency and effectiveness.

We assess and report on the equally important areas of market development and stakeholder perceptions separately during the year.

Market development: Ofcom believes that our performance should ultimately be judged by the outcomes we deliver to citizens and consumers in the markets which we regulate. Ways in which we judge this include:

- analysis of a range of indicators of market developments. This includes our annual Communications Market Report published July/August each year, which represents a comprehensive review of market statistics relevant to the citizen and consumer interest;
- a range of bespoke communication market reports on key issues;
- a report evaluating the impact of the Strategic Review of Telecommunications to be published in 2006/7; and
- a review of consumer outcomes to be published in 2006/7.

Stakeholder perceptions: Ofcom continually engages with stakeholders and seeks their views on a wide range of issues including the quality of our outputs and how well we have consulted.

The remainder of this section looks more closely at:

- how we have applied our regulatory principles; and
- internal efficiency and effectiveness, including our service delivery and enforcement activities and time-based KPIs.

Achieving objectives and key regulatory principles

The principles of better regulation are integral to the way Ofcom works. The Communications Act 2003 incorporated the better regulation principles developed by the Better Regulation Task Force (BRTF). When Ofcom was established, it translated these high-level principles into detailed regulatory principles to inform its day-to-day work. See 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.

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.

Performance and evaluation

Regulatory thinking has evolved since 2003. We therefore also seek to implement more recent principles representing best regulatory practice. We have paid close attention to the recommendations of Philip Hampton's report *Reducing Administrative Burdens: Effective Inspection and Enforcement* and the BRTF report *Less is More*.

While the key themes arising out of the Hampton and BRTF reports are consistent with our existing principles, the reports imply a change in emphasis that we have sought to reflect in our work this year. We have therefore adopted the following additional principles:

- Ofcom will strive to ensure that our interventions are risk- based; and
- we will aim to reduce the administrative costs of regulation and to improve value for money.

The Hampton report emphasised the need to target universal inspection and enforcement activity on the basis of an assessment of risk. Areas where we have implemented a more targeted, risk-based approach include:

- regulation aimed at preventing spectrum interference; rather than carrying out routine inspections, we now focus on areas where there is the greatest consequence of interference; and
- the Ofcom Broadcasting Code, which sets out standards with which all broadcasters must comply; the Code is now clearer, and better targeted, with the protection of children being of paramount concern.

The BRTF report focused on a methodology for first quantifying, and then targeting, reductions in the administrative costs of regulation. Ofcom recognises that regulation imposes a cost on our stakeholders. The area where Ofcom imposes administrative burdens on the largest number of stakeholders (many of whom are small businesses or individuals) is in spectrum licensing.

Over the year Ofcom has actively sought to reduce the administrative cost of licensing activity: for example, we have decided to move from annual to lifetime licences for ships' radio and amateur radio. Our 2006/7 Annual Plan included a Simplification Plan, which lists other areas where we will focus on reducing and better targeting regulation in the coming year.

However, in considering Hampton and the BRTF reports it is important to understand the ways in which Ofcom may be different from other regulators:

- only in a small number of areas do we apply universal or static regulation which is applied equally to all stakeholders and is designed to ensure a baseline of minimum standards;
- the communications sector we regulate is fast-moving: markets, technology and regulatory risks change. Ofcom needs to keep up with the pace of change; and
- in this environment we believe the most effective way of removing and targeting regulation is to take a strategic approach to reducing regulation. Our primary focus will often be on reducing the overall burden or presence of regulation, with administrative costs being reduced as a consequence.

Taking account of both the principles set out in Figure 2 and the change in emphasis implied by the more recent debate on better regulation, we have focused on our performance assessment in four key areas:

- our delivery against the 2005/6 Annual Plan;
- how Ofcom has succeeded in reducing regulation;
- whether we have consulted our stakeholders effectively; and
- our performance in carrying out impact assessments to inform our policy decisions.

2005/6 Annual Plan outputs

If Ofcom is to be able to respond to the key issues facing citizens, consumers and industry it is essential that we:

- have a transparent approach to developing our priorities and planning our work; and
- engage with our stakeholders to obtain their views.

Each year we therefore run a consultation process to help us develop our Annual Plan, which includes a number of stakeholder meetings held in different parts of the UK.

Our Annual Plan for 2005/6 listed 76 key policy outputs (consultation documents and statements) that we expected to deliver during 2005/6. The number of outputs actually delivered was 115. The reasons for the increased number of documents delivered include:

- in some cases there were follow-on documents from Annual Plan outputs (i.e. following a planned consultation, there was a need for a further consultation); and
- there were additional pieces of work that we identified during the year, or which we were required to undertake as a consequence of external factors.

However, not all of the original planned documents have been delivered because:

- a small number of outputs were cancelled (for example, because an initial assessment revealed that this was not the right time to carry out a market review); and
- some outputs were deferred to 2006/7.

We believe these figures illustrate:

- a high level of activity against our planned work; and
- the need for us to be responsive to external events which may arise at short notice and which cannot be planned for.

Ofcom also provides key services to stakeholders, such as licensing access to spectrum and providing advice via our Contact Centre. These activities are detailed later in this section.

Ofcom has a number of projects that will help us operate more effectively including re-organising our business processes and systems to achieve the most efficient and integrated use of resources. It is important to recognise that given the fast-moving nature of the sectors that we regulate, external events are likely to continue to limit our ability to plan ahead with complete accuracy.

Reducing regulation

A key element of better regulation is ensuring that regulation is properly targeted and does not impose undue burdens on business. This has been an important theme in the ongoing Better Regulation debate.

Ofcom's statutory remit includes a wide range of areas. There is therefore no simple answer to the question of whether on balance we have increased or reduced the overall level of regulation.

Figure 3 summarises Ofcom's policy statements published during 2005/6. In this figure:

- we have attributed each published statement with an overall net direction of regulation and reflected this in the colour of the circles; and
- we have approximated the impact of the regulation (conceptually this is the size of the market affected multiplied by the effect of Ofcom's regulation) and reflected this in the size of the circles.

The figure is intended to be illustrative; while it is necessarily subjective in some respects, it provides an overview of Ofcom's regulatory decisions. From this we conclude:

- in terms of the number of decisions, Ofcom decisions reduced or targeted regulation more often than they increased it; and
- in terms of impact, the overall net direction is to reduce regulation.

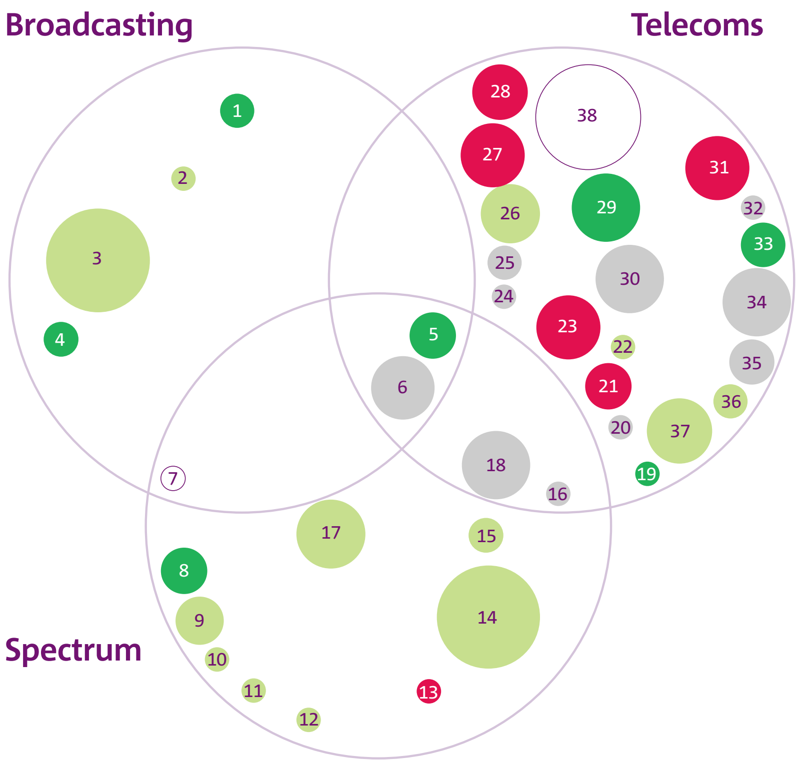
In some cases it is not possible to draw single conclusions about the overall direction of regulation. The Strategic Review of Telecommunications concluded that existing regulation should be more focused and needed to be made more effective, and that this would provide scope for deregulation elsewhere. The Undertakings that Ofcom accepted from BT Group plc in September 2005 were designed to achieve this result. Although the effect of the Undertakings is to increase the regulation in specific areas, this targeted intervention will enable much broader deregulation in the future, for example in retail telecoms markets.

Figure 3 also illustrates our commitment to reducing regulation in a range of areas, including:

- the Spectrum Framework Review illustrates our strategic approach to reducing regulation. We defined our policy objective, namely, moving from command-and-control to a market-based approach to managing spectrum, and this then determined the scope for deregulation, such as the removal of restrictions on spectrum use;
- we exempted the use of radio frequency identification equipment from Wireless Telegraphy licensing;
- Ofcom concluded that BT's Wholesale Line Rental product met a series of agreed criteria (subject to specific conditions). Ofcom's assessment meant that the existing price controls on BT Group plc could be relaxed;
- our strategic review of Public Service Broadcasting (PSB) has established a path for the gradual reduction in PSB obligations on commercial broadcasters. We reduced obligations on non-news programming for the Nations and Regions, which was less valued by viewers, costly and unlikely to survive as analogue-only viewing declines.

Figure 3 also demonstrates that Ofcom is prepared to take firm and effective action to protect citizens and consumers. For example, in order to address the serious issue of mis-selling in telecoms we imposed requirements upon all relevant communication providers to establish, and comply with, codes of practice on sales and marketing, in accordance with published guidelines.

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



Size of circles is indicative of the amount of regulation and size of market affected

Source: Ofcom. Note this chart is intended to be illustrative and is necessarily subjective in some respects.

Increase/new – Ofcom has increased regulation or has introduced new regulation

Mix/No change – Ofcom has not significantly changed the existing level of regulation, or the decision contains several elements which taken together do not significantly change the existing level

Streamline/Co-reg – Ofcom has improved the process and clarity of the regulation, or has included greater responsibility for stakeholders, but the underlying policy remains essentially the same

Dereg/Forebear – Ofcom has reduced the overall amount of regulation, or has decided not to introduce new regulation

n/a

1. Independent national radio licences
2. PSB 3 – Nations and Regions programming
3. Broadcasting code
4. AM networking
5. Radio review Phase 2
6. DSO planning
7. Community Radio fund
8. WT Act charges
9. GSM/DECT guard bands award
10. RFID exemption
11. Ships' radio
12. 24 GHz automotive radar
13. RSA Radio astronomy
14. Spectrum Framework Review
15. Amateur radio licensing
16. Mobile termination – request for consent
17. Licensing VHF Band 3 sub band 3
18. Mobile termination charge controls
19. Partial Calling Line Identity Codes
20. LLU: rental charge
21. NTS Retail Uplift/PRS bad debt surcharge
22. UK number portability
23. Mis-selling fixed telecoms services
24. General Condition 21.1 – Quality of Service
25. Non-emergency number
26. BT'S SMP status/charge controls
27. Emergency amendment to ICSTIS Code of Practice
28. Valuing BT's copper access network
29. Next Generation Networks
30. Universal Service Obligation
31. Persistent misuse of electronic comms network
32. Geographic number conservation
33. Number portability, technology neutrality
34. WLR – Reviewing/setting charge ceilings
35. Line costs and charges for Carrier Pre-selection
36. BT's regulatory financial reporting framework
37. WLR – Fit for purpose
38. TSR: Statement & BT undertakings – **see text**

Consultation periods and responses

Consultations are one of the key ways in which we engage with stakeholders and allow them to influence the direction of our policies. 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. However, we think this is appropriate given the speed with which the communications industry changes.

Sometimes we will need to move more quickly, and the consultation period will be 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 five weeks, however, the time may vary depending on the issue.

Reasons why the appropriate consultation period may be shorter than ten weeks include:

- the issue or community involved is small or only affects a particular group;
- a proposal will have a limited effect on a market or is only a limited amendment to existing policy;
- an issue needs to be looked at urgently;
- the law says we must act within a specific time period;
- the organisations involved in a specific consultation agree they want a faster timetable; or
- this is the second consultation on the same issue.

Figure 4 shows an analysis of Ofcom consultation durations by sector. We believe this demonstrates a high level of adherence to our guidelines. We have looked on a case-by-case basis at those consultation documents where we had a shorter consultation period and did not explicitly explain why, to verify that there were valid reasons for the period chosen.

Ofcom also collects statistics on the number of responses to consultations. This is shown in Figure 5. Consultation responses are an important way in which Ofcom's stakeholders engage with Ofcom's decision-making process. The chart illustrates the large number of responses we have had over the year (based on consultations where we have subsequently published a statement). Two consultations had an unusually high level of responses (of approximately 950 and 1,500). The total number of responses to the remaining 46 consultations was 1,015. A small number of consultations have attracted a very wide range of responses, while most of the issues Ofcom consults on are narrower in scope and of interest to a smaller constituency of stakeholders. All consultations have had at least one response.

Impact Assessments

Impact Assessments (IAs) are a critical component of better regulation. They ensure that for any policy decision:

- options are clearly laid out;
- the impact of each option is analysed; and
- the policy chosen is likely to ensure the costs of regulation are outweighed by the benefits.

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

Ofcom published its IA guidelines in July 2005, which emphasised Ofcom's commitment to conducting assessments as a fundamental component of policy-making and which stated that we expect to carry out IAs in the great majority of our policy decisions. An analysis of where Ofcom's consultation documents contained an explicitly labelled IA is shown in Figure 6.

Approximately 63 per cent of consultation documents contained an explicitly labelled IA. We have analysed the cases where there is no IA section. The reasons for this include:

- consulting on operational issues, i.e. the way Ofcom works (such as the Annual Plan and IA guidelines);
- guidelines which clarify but do not change the underlying policy;
- an assessment of options has been presented – but we failed to explicitly label the analysis as an IA;
- we were publishing a follow-up consultation in which the policy issues had largely been considered elsewhere; and
- we were making recommendations, but were not requiring action.

We believe we are meeting the commitment in our guidelines, and will continue to ensure that IAs are carried out and properly presented in all cases where they are applicable.

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	16	15	3
Broadcasting	11	1	2
Spectrum	5	7	0
Other	2	1	0
Total	**34 (54%)**	**24 (38%)**	**5 (8%)**

Figure 5: Responses to consultations

Figure 6: Analysis of impact assessments carried out

	Number of consultation documents	
	Total	IA explicit in published document
Telecoms	34	19
Broadcasting	14	10
Spectrum	12	11
Other	3	0
Total	**63**	**40 (= 63%)**

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.

Operating results

Ofcom's actual operating costs for 2005/6 were £129.0m, £4.0m lower than budget.

Within its financial budget Ofcom delivered the majority of the policy outputs planned in the 2005/6 Annual Plan, as well a number of additional outputs. Ofcom continued to deliver services, such as spectrum licensing to stakeholders and to carry out enforcement activities.

The underspend against the operating budget reflects a number of items, the largest of which include savings in operating expenditure through insourcing desktop support functions in IS, savings due to operating below the budgeted headcount chiefly in policy production and taking opportunities to rationalise the property portfolio as these arose.

The £129.0m of actual operating costs for 2005/6 compares favourably with £142.0m which was the predicted sum of the cost of the legacy regulators after including the financial impact of additional statutory duties, annual inflation and VAT.

In addition to Ofcom's own expenditure, the income and expenditure account also includes £6.7m for spectrum efficiency projects (2004/5: £ 3.1m) which are funded by grant-in-aid from the Treasury and £1.1m of expenditure for the programme of spectrum auctions. Spectrum efficiency projects are recorded within technological research in Note 6 to the financial statements and the initial work on the programme of spectrum auctions is represented under professional fees. These items and a further increase in professional fees, offset by a reduction in the seconded staff, are the principal contributors to the increase in operating

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

expenditure presented in the income and expenditure report. The additional professional advice commissioned included advice on the transfers of pension liabilities from the principal civil service pension scheme, work in licensing deregulation, and a number of significant telecoms projects including mobile call termination.

A reconciliation is set out below which highlights the differences between the total operating expenditure as presented in the income and expenditure account and Ofcom's actual out-turn of £129.0m.

Note 2 to the financial statements also presents, Ofcom's actual out-turn for 2005/6, by sector.

Reconciliation from the income and expenditure account to Ofcom budget out-turn	£'000
Operating expenditure- income and expenditure account	124,406
Spectrum Efficiency Scheme grant-in-aid	(6,675)
Grant-in-aid expenditure on the programme of spectrum auctions	(1,117)
Capital expenditure less depreciation	547
Vacant property costs	4,855
Pension contributions versus service costs	8,958
Actual rent payments	2,784
Non-operating income less non-cash provisions	(1,280)
Proceeds from fixed assets	(3,492)
Total Actual Operating Costs Out-turn	128,986

Ofcom calculates its operating revenue on the basis of 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 treatment gives rise to an accounting surplus only. Ofcom returns the majority of actual surplus funds to stakeholders through the annual tariffs raised in the next financial year.

The operating surplus for the year under review was recorded as £31.6m compared with a surplus of £22.5m in 2004/5.The operating surplus is required, primarily, to repay the DTI loan; cover the rental and operating payments relating to vacant property inherited from the legacy regulators (which were charged via the vacant property provision to the income and expenditure account in 2003/4); pay for any investment in fixed assets; and fund the two defined benefit pension plans which were inherited as a result of the merger of the five legacy bodies.[2] The special contributions made by Ofcom in 2005/6 to address the actuarial deficit in the inherited defined benefit pension schemes are the principal components of the increased surplus. Full details of the pension plan are described in a subsequent section of this review. The utilisation of the surplus is also described in Note 2 to the financial statements.

On 31 March 2006, Ofcom published the Tariff Table for 2006/7, which was based on an estimated out-turn for 2005/6 of £129.5m.

A total of £3.5m – the difference between the original budget of £133m and the forecast out-turn – is already being passed back to stakeholders in 2006/7 as part of the current regulatory tariffs or reimbursement of grant-in-aid claims.

The sum of £0.5m, which represents the difference between the final out-turn and the forecast out-turn, will be returned to stakeholders in 2007/8 as a credit against 2007/8 licence and administration fees.

These sums have been deferred on Ofcom's balance sheet at 31 March 2006.

Ofcom's operating budget for 2006/7 is five per cent lower in real terms than the 2005/6 operating budget. Ofcom believes that the operating budget is a prudent figure after taking into consideration its work programme and the first stages of implementation of Project Unify, Ofcom's long-term IS infrastructure project.

Taking into account this reduced operating budget and the significant returns to stakeholders in 2005/6, this will mean that regulatory fees for 2006/7:

- will reduce by 3.7 per cent for television licensees;
- will marginally increase in real terms (an average increase of 3.7 per cent in nominal terms) for the radio sector; and
- will increase by an average of 11 per cent for network and services operators to reflect increasing work in 2006/7 in a

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

Financial performance

range of areas including implementation of the outcome of the Strategic Review of Telecommunications and increased focus on consumer protection and enforcement.

People

At 31 March 2006, Ofcom had 776 (2005: 753) employees and two (2005: 30) secondees.The headcount figure is significantly below the 850-plus headcount at Ofcom's launch in 2003 and the estimated 1,152 roles of the combined legacy regulators.

Pensions

Ofcom's primary means of providing pension benefits is through a defined contribution pension allowance provided to all external recruits to Ofcom 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, 75 per cent of Ofcom colleagues are employed on terms with access to a stakeholder pension plan; 21 per cent are on Ofcom terms with a defined benefit pension with restricted pensionable salary growth; and just 4 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 13 and 26 of the notes to the financial statements. These show that Ofcom has a pension asset as of 31 March 2006 of £10.2m as measured by Financial Reporting Standard 17 (FRS 17), of which £8m relates to the former ITC Plan.

During the year, 83 colleagues transferred their deferred pension provision from the Principal Civil Service Pension Scheme (PCSPS) to the Ofcom scheme, as did 45 colleagues who were members of the former ITC Plan. Ofcom expects to receive assets of around £6m (measured at 31 March 2006) from the PCSPS in relation to this transfer. The latest actuarial valuation of the Ofcom Plan is currently being prepared as of 31 March 2006 and will be finalised later in 2007.

The ITC scheme is a relatively mature scheme, compared to many similar schemes, in that more than 85 per cent of the liability relates to pensioners or deferred pensioners. The use of the discounting assumptions stipulated by FRS 17 gives rise to an accounting asset. By contrast, the assumptions used by the actuary for the actuarial valuation give rise to a net deficit in the plan at 1 January 2004 of £6.0m and this forms the basis of the recommended annual contributions to the scheme. The next actuarial valuation will be carried out at 1 January 2007.

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

During the year, Ofcom made defined benefit contributions of £9.6m to the two defined benefit pension schemes. Separately, Ofcom colleagues in receipt of the pension allowance elected to pay a total of £2.0m into the Ofcom defined contribution stakeholder pension scheme. The contributions to the defined benefit schemes included £1.9m paid in advance and a special contribution of £4m to the Ofcom Plan to fund the deficit arising as a result of the bulk transfers.

Additional funds collected on behalf of HM Treasury

Ofcom's funding for spectrum management activities is ultimately derived from the fees paid by licensees to the UK Exchequer. In addition, Ofcom is responsible for determining and collecting Additional Payments made by certain broadcast licensees using valuable spectrum. In total, those monies, collected by Ofcom on the Government's behalf, represent a significant contribution to the public purse. In 2005/6, in accordance with Section 400 of the Communications Act, Ofcom invoiced and collected £281.3m (£52.9m of which was refunded to licensees following a revision of licence terms) from wireless communications and broadcasting companies in spectrum revenues and licence receipts.

At 31 March 2006, £39.8m (2005: £35.3m) 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 debts may be written off without authorisation from the DTI, and HM Treasury is also consulted in respect of write-off requests for significant balances. At the balance sheet date, the following significant amounts had been outstanding for more than 12 months:

- £1.5m owed by Inquam Telecom (Holdings) Limited – a legal agreement between Ofcom and Inquam has agreed a future repayment plan; and
- £0.2m owed by Quiktrak (UK) Limited, a company in liquidation. At the date of this report, Ofcom does not expect to recover this debt.

Investments in fixed assets

During the full-year period under review, Ofcom invested a total of £6.6m (2005: £5.6m) in tangible fixed assets and £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 £4.6m of assets under construction.

On 31 March 2006 Ofcom sold its investment in Whyteleafe Hall for £2.9m after disposal costs.

DTI loan

Ofcom's establishment and restructuring loan of £52.3m is repayable to the DTI in the period from March 2004 to 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 £17.8m of the loan and at 31 March 2006, the loan balance outstanding was £10.4m.

Property management

As in 2005/6, Ofcom has adopted a prudent approach in providing against all future vacant property costs that are surplus to requirements. The provision is based on all future premises cash flows up to the earlier of either the first lease break, or the end of the lease, discounted by the Treasury recommended cost of capital. While it is probable that the longer leasehold properties will be disposed of at some stage, it is not possible to estimate the associated income reliably. Ofcom has therefore taken the prudent approach of not recognising any future income unless commitments are already in place or reasonably certain.

During the year ended 31 March 2006, £4.9m of the vacant property provision was utilised and, after taking into account the unwinding of the 2005/6 element of the discount on the provision of £0.3m, the provision at 31 March 2006 was £10.7m (2005: £15.2m).

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:

- applications for telephone numbers – KPIs;
- Wireless Telegraphy Act licensing – issuing licences (categories A, B and C);
- Wireless Telegraphy Act 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;
- The Ofcom Contact Centre – 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 communications 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, that requirement was met in 97 per cent of cases. Of the remaining three per cent, the extended period was agreed with the applicant in all but one case.

Wireless Telegraphy Act licensing

Issuing licences

Ofcom issues around 30 different kinds of non-discretionary 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 (WT Act) Licences (1 April 2005 – 31 March 2006)

Category A			
Licences that involve no frequency assignment, site clearance or international co-ordination			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
PBR UK General	957	799	4,206
Fixed Wireless Access (5.8 GHz) *formerly 5.8 Ghz*	62	95	182
Business Radio (Self-Select) *formerly Self-Select (One-way Paging)*	641	568	6,945
Business Radio (Suppliers) *formerly PBR Suppliers*	33	40	420
Police and Fire	11	0	123
Subtotal for Business Radio products	**1,704**	**1,502**	**11,876**
Radar Level Gauge	21	23	431
Total for Category A	**1,725**	**1,525**	**12,307**

Category B			
Licences that involve frequency assignment but no site clearance or international co-ordination			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
Automatic Identification System	34	0	34
Coastal Station Radio (International)	29	32	507
Coastal Station Radio (UK)	31	27	457
Coastal Station Radio (Marina)	24	54	432
Coastal Station Radio (Search and Rescue)	1	0	1
Coastal Station Radio (Training School)	60	48	128
Maritime Radio (Suppliers and Demonstration)	6	26	92
Maritime Navaids and Radar	28	43	113
Differential Global Positioning System	0	0	17
Subtotal for Deregulation and Contracting-Out products	**213**	**230**	**1,781**
Business Radio (Standard) *formerly PMR Standard – (UK General) only*	0	2	186
Business Radio (IR 2008 Data) *formerly Interface Requirement 2008*	4	5	12

Table continues over page

Statistical data

Category B (continued)			
Licences that involve frequency assignment but no site clearance or international co-ordination			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
Business Radio (Speech and Data) *formerly On-site PBR (Speech and Data)*	2,680	2,938	23,919
Business Radio (On-Site Local Communications Systems) *formerly On-site PBR (Local Communications)*	70	112	1,336
Business Radio (On-Site Hospital Paging and Emergency Systems) *formerly On-site PBR (Hospital Paging and Emergency Speech)*	7	10	466
Business Radio (On-Site One-Way Paging and Speech Systems) *formerly On-site PBR (One-way Paging and Speech)*	146	151	1,793
Business Radio (Wide-Area Speech and Data Systems) *formerly Wide-Area PBR (Speech and Data)*	1,531	1,685	10,727
Business Radio (Wide-Area One-Way Paging and Speech Systems) *formerly Wide-Area PBR (One-way Paging and Speech)*	22	10	303
Business Radio (Wide-Area Distress Alarm Systems) *formerly Wide-Area PBR (Distress Alarms)*	40	11	60
Business Radio (National and Regional) *formerly National and Regional PBR*	4	1	62
Business Radio (Common Base Station) *formerly Common Base Station Operator*	28	39	589
Business Radio (CBS – (Band I and Sub Band I of Band III) *formerly (Band I) and (Sub Band I of Band III) CBS*	3	3	16
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	5	0	5
Remote Meter Reading	0	1	4
Scanning Telemetry	1	45	30
Subtotal for Business Radio products	**4,541**	**5,013**	**39,519**
Total for Category B	**4,754**	**5,243**	**41,300**

Category C			
Licences that require frequency assignment and site clearance and/or international co-ordination			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
Fixed Links	31	50	369
Satellite (Permanent Earth Station)	16	24	112
Satellite (Transportable Earth Station)	43	47	127
Satellite (Earth Station Network) *formerly Very Small Aperture Terminal*	8	17	39
Total for Category C	**98**	**138**	**647**

Test and Development Licences			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
Non-Operational Development Licence	247	281	255
Non-Operational Temporary Licence	31	160	31
Total for Test and Development	**278**	**441**	**286**

Statistical data

Mobile and Broadband Wireless			
Licences issued through spectrum auction or awards			
	Licences issued April 05 – March 06	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
2G Cellular Telephones	0	0	4
3G Cellular Telephones	0	0	5
2G Channel Islands and Isle of Man Cellular Telephones	3	0	7
3G Channel Islands and Isle of Man Cellular Telephones	4	0	6
Fixed Wireless Acces and Broadband Fixed Wireless Access 28 GHz, 3.6 GHz and 3.4 GHz	0	0	10
Fixed Wireless Acces & Broadband Fixed Wireless Access Channel Islands and Isle of Man 28 GHz, 3.6 Ghz and 3.4 Ghz	2	5	7
Total for Mobile and Broadband Wireless	**9**	**5**	**39**

Most category A licences are dealt with by the Radio Licensing Centre (RLC), responsible for amateur, Citizen's Band and ships' radio licences. 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 05 – March 06**	Licences issued April 04 – March 05	**Total on issue as at 31 March 06**
Radio Licencing Centre (RLC) issues licences for CB, Amateur and Maritime	157,256	167,561	150,092
JFMG issues licences for Programme-Making and Special Events	2,417	2,243	2,822
CAA issues licences for Aeronautical	14,417	11,200	12,825
Total	**174,090**	**181,004**	**165,739**

Total Number of Licences – all categories	**180,954**	**188,356**	**220,318**

Spectrum Licensing KPIs

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 for time to issue licence	**KPIs achieved April 05 – March 06**	KPIs achieved April 04 – March 05
Category A Licence	100% in 7 days	94%	82%
Category B Licence	90% in 21 days	96%	92%
	100% in 42 days	100%	97%
Category C Licence	90% in 42 days (100% excluding where international clearance is involved)	94%	95%
	100% in 60 days (including where international clearance is involved)	95%	97%

Test and Development Key Performance Indicators

	KPI target for time to issue licence	**KPIs achieved April 05 – March 06**	KPIs achieved April 04 – March 05
Category A Licence	100% in 7 days	92%	56%
Category B Licence	90% in 42 days	100%	100%
Category C Licence	100% in 60 days	100%	100%

Partners' Performance

	KPI target for time to issue licence	**KPIs achieved April 05 – March 06**	KPIs achieved April 04 – March 05
RLC	100% in 7 days	100%	100%
JFMG	100% in 7 days	100%	100%
CAA	100% in 7 days	100%	100%

Statistical data

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 activities.

Work Programme Activity/Incident	Period 2005/6 Reporting Year	Period 2004/5 Reporting Year
Interference investigation requests received	2,946	3,159
Baldock: Reports received of serious spectrum interference (see note below)	2,858	2,399
Interference investigation cases closed	2,307	2,564
Spectrum assignments completed	5,656	6,619
Enforcement operations against unlicensed and criminal activity	1,588	1,534
Radio system compliance inspections completed	1,277	4,024
Successful prosecutions for criminal spectrum activity	65	50
Unsuccessful prosecutions for criminal spectrum activity	0	0

Field Operations KPIs

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

	Quality of Service Targets	Achievement 2005/6 Reporting Year	Achievement 2004/5 Reporting Year
QST 1	100% of reports of interference to safety-of-life radio systems to be investigated within 24 hours	99.26% (134 out of 135)	99.47% (189 out of 190)
QST 2	a) 98% of reports of interference to commercial/professional radio systems to be investigated within five working days	98.53% (735 out of 746)	98.30% (639 out of 650)
QST 2	b) 100% of such reports to be investigated within ten working days	99.46% (742 out of 746)	99.54% (647 out of 650)
QST 3	a) 98% of reports of interference to domestic broadcast reception to be investigated within one month	99.33% (1,919 out of 1,932)	98.40% (2,282 out of 2,319)
QST 3	b) 100% of such reports to be investigated within two months	99.90% (1,930 out of 1,932)	99.44% (2,306 out of 2,319)
QST 4	a) 90% of customers requesting interference investigation to be provided with case progress report within ten working days of start of investigation.	99.25% (2,127 out of 2,143)	99.62% (2,608 out of 2,618)
QST 4	b) 100% of such customers to be provided with case progress report within 20 working days of start of investigation	99.67% (2,136 out of 2,143)	99.96% (2,617 out of 2,618)

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 1,102 cases were closed.

During the period under review, Ofcom's Content and Standards Group reached decisions on a total of 14,227 programme complaints, of which 14,025* were complaints about programme standards (including issues relating to political advertising and the amount and distribution of advertising) and 202 were complaints about alleged unfairness and/or infringements of privacy.

Of the programme standards cases closed:

- five broadcasters were subject to statutory sanctions (single or multiple programmes/issues) (23 complaints about 16 issues)
- 63 programmes/issues** were found to be partially in breach/in breach (494 complaints)
- 109 programmes/issues were resolved/partially resolved (334 complaints)
- 914 programmes/issues were not in breach (13,174 complaints*)

Number completed within target:

- Straightforward cases – 84% closed within target of 40 days (target: 80%)
- Complex cases – 83% closed within target of 60 days (target: 80%)

* Includes 8,860 post-transmission complaints about BBC2's *Jerry Springer – the Opera*

** 'Programme/issues' includes cases where there may be several programmes (for example, in a series) but the same issue is subject to complaints.

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: 202

Of the fairness and privacy cases closed 18 were considered by the Fairness Committee (5 of which involved a Hearing).

Of these:

- 11 were upheld (of which 9 were upheld in part); and
- 7 were not upheld

Of the fairness and privacy cases closed 184 were considered by the Executive.

Of these:

- 8 were upheld (of which 7 were upheld in part);
- 44 were not upheld;
- 7 were resolved (following appropriate action taken by the broadcaster); and
- 125 were not entertained or discontinued after entertainment.

60% (125 cases) completed within target of 125 days. This is short of Ofcom's target of 80%. During the period under review, Ofcom experienced an overall increase in the number of fairness and privacy complaints of 47% (in comparison to the legacy regulators). The review mechanism introduced by Ofcom has also meant that complaints are open for longer.

Statistical data

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. The Content Sanctions Committee is quorate with three Content Board Members. The Content Sanctions Committee is chaired by either the Chairman of the Content Board or Kip Meek (member of the Ofcom Board and the Content Board).

During the period under review, five cases were referred to the Content Sanctions Committee.

The Content Sanctions Committee decided to fine*:

- Video Interactive Television Plc in respect of its service Channel U – £18,000
- Life TV Media Ltd in respect of its service Life TV – £12,000.

The Content Sanctions Committee decided to fine* and direct:

- Channel 4 Television Corporation – £5,000 and a Direction to transmit Ofcom's statement of finding
- Piccadilly Radio, in respect of its service Key 103 FM Manchester - £125,000 and a Direction to transmit Ofcom's statement of finding three times daily for a week.

The Content Sanctions Committee decided to direct:

- Bloomberg LP in respect of its service Bloomberg Television – Direction to transmit Ofcom's statement of finding on three consecutive days.

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

Investigations programme

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 2005/6, including performance against published targets (incorporating statutory targets).

The Ofcom Contact Centre

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

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	78% (of 67 closed, 15 exceeded target with agreement) (100% with agreement for complex cases)	77% (of 67 opened, 64 closed, 15 exceeded target with agreement) (100% with agreement for complex cases)
Resolution of disputes (four months)	100% (three cases closed, none exceeded target)	100% (of eight opened, one closed). Note: three ongoing disputes will exceed the four month target due to exceptional circumstances
Competition Act investigations (six months where 'no grounds for action' decision made; 12 months for an infringement decision)	40% (five cases closed, three exceeded target) Note: includes one investigation under the Competition Act that was conducted on Ofcom's own initiative	100% (of four opened, one closed). Note: includes one investigation under the Competition Act that was conducted on Ofcom's own initiative. One case opened prior to the reporting period remains open and has exceeded target
Part 8 of the Enterprise Act investigations (six months to obtain undertakings)	N/A. Note: one investigation under the Enterprise Act was conducted on Ofcom's own initiative and is included in the data below	N/A (none opened). Note: one investigation under the Enterprise Act was conducted on Ofcom's own initiative and is included in the data below
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)	94% (18 cases closed, one exceeded target)	100% (of 16 opened, 11 closed). Note: one case opened prior to the reporting period was closed and exceeded target
Own-initiative investigations (six months)	100% (13 cases closed, none exceeded target)	100% (of 13 opened, nine closed)
Total investigations	90% (39 cases closed, four exceeded target)	100% (of 41 opened, 22 closed). No ongoing case opened during the reporting period had exceeded its target as at 31 March 2006

Answering calls

85% customers satisfied or very satisfied with ease of contacting OCC over the telephone (Source: Ofcom survey.)

90% of consumer and licensing customer enquiries resolved in single phone call

Responding to correspondence

(Target: 80% in 10 working days)

- Broadcasting 98%
- Telecoms 90%
- Spectrum 84%

Issuing Licences

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

98% of licences issued within target

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 2006.

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 2005 to 31 March 2006.

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 2 to 3, the Chief Executive's Report on pages 4 to 9 and the Operating and Financial Review on pages 65 to 87 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 126 to 153

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 2005/6 was £90,000.

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 94 and 95. Details of Members' remuneration are set out on pages 116 to 122.

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

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 which include:

- a commitment to colleagues, including a positive working culture and dedication to diversity;
- a commitment to be dynamic, responsive and commercially aware; and
- a commitment to incisive thinking, rigorous evidence-based analysis and engagement with stakeholders.

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;
- 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;
- regular messages from the Chief Executive; and
- an annual all-colleague event to review progress and the year ahead.

Additionally, Ofcom signed a recognition agreement with BECTU and Prospect, who work together as one body – the Partner Union.

Employment policies, performance development and public sector duties

As a public body, Ofcom has a number of statutory duties placed upon it relating to social responsibility. These include specific duties aimed at promoting equality and diversity and general duties which include considering the environmental impact of its policies.

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.

During 2005/6 Ofcom continued to roll out its integrated diversity policy, designed to deliver equality of opportunity in all areas of employment, including development and promotion. All managers and colleagues attended a diversity workshop as part of a programme of diversity training designed specifically for Ofcom. In May 2005 Ofcom published the final version of its Race Equality Scheme which sets out how Ofcom as an employer will promote equal opportunities among different racial groups and how as a regulator it will ensure its policies do not discriminate against any racial group. In September 2005 the Equality Commission for Northern Ireland approved Ofcom's Equality Scheme, which requires Ofcom to conduct impact assessments in relation to its policies and their potential impact on nine designated groups in Northern Ireland.

Ofcom has also published a Welsh Language Scheme that clarifies which of its documents will be made available in Welsh.

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.

Statement on health and safety policy and practice

Ofcom now has an established health and safety committee which reviews health and safety policy. Policy and performance are reviewed annually to ensure colleagues are unharmed by their work. For example, during the reporting period Ofcom implemented postural assessment for all computer users. Ofcom has a dedicated Member of the Executive Committee (ExCo) specifically responsible for safety, and during the year Ofcom appointed an occupational health adviser.

Colleagues at all levels are involved in prioritised risk management, and particularly high-risk activities are reviewed internally – for example in Field Operations, substantial progress has been made against the top two risks: driving and work on dangerous rooftops.

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 the data protection principles. Ensuring compliance with the data protection standards is not simply an issue of operating within the law; it is also about the effective handling of personal data and respecting the interests and rights of individuals. It is for these reasons that Ofcom has undertaken an internal awareness campaign to ensure all colleagues understand their responsibilities to comply with good information handling practice. Ofcom is also in the process of reviewing policies and processes for collecting and holding personal data, to ensure that it is fully compliant with the Act and that Ofcom communicates these policies and processes effectively with those whose data it holds.

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. Ofcom received 835 requests for information between 1 April 2005 and 31 March 2006 and in keeping with the Act's purpose to foster a culture of openness Ofcom provided information requested in 87 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

Stephen A Carter

Chief Executive

27 June 2006

Charitable donations

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

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

The relationship with St Mungo's was formalised in December 2003; by the end of the period under review Ofcom had passed almost £6,500 in charitable donations to the organisation.

"Thanks to Ofcom's continuing commitment St Mungo's is able to help thousands of homeless men and women off the street and hundreds of people back into work every year."

Charles Fraser
Chief Executive

St Mungo's

The Ofcom Board

Millie Banerjee CBE (age 60)

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

Stephen A. Carter (age 42)

Stephen Carter is the Chief Executive of Ofcom. He is the organisation's Accountable Officer and Chair of the Executive Committee. Previously he was Managing Director and Chief Executive at J. Walter Thompson UK Limited and MD and Chief Operating Officer of NTL UK & Ireland. He is a law graduate from Aberdeen University and completed the Harvard Business School's Advanced Management Programme (A.M.P. 152) in 1997. He is the current Chairman of the Marketing Group of Great Britain, a Non-Executive Director of Travis Perkins PLC, a Governor of the Ashridge Business School, and a Vice President of UNICEF.

David Currie (age 59)

David Currie is the Non-Executive Chairman of Ofcom. David has been Dean of Cass Business School at City University since January 2001. He was Professor of Economics at London Business School from 1988 to 2000 and Deputy Dean from 1992 to 1995 and again in 1999-2000. He 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. David Currie is a Member of the Audit and Remuneration Committees of Ofcom.

Stephanie Liston (age 48)

Stephanie Liston is a Non-Executive Member of Ofcom, appointed on 1 September 2005. She is a Corporate Partner in Howes Percival, Norwich. A qualified lawyer in the US and the UK, she is co-chairman of the Communications Committee of the International Bar Association and co-founder and chair of Women in Telecoms and Technology. She has more than 15 years of experience advising on strategic regulatory issues, contractual negotiations and commercial transactions in the UK and international communications and technology sector.

Kip Meek (age 51)

Kip Meek is an Executive Member of Ofcom and Chief Policy Partner. Prior to joining Ofcom, he was Managing Director of Spectrum Strategy Consulting, and one of its two founders. His consulting career focused on major decisions in the communications industry, particularly those that involved integration of the media, telecommunications and information sectors.

Phillip Graf CBE (age 59)

Philip Graf was appointed Non-Executive Deputy Chairman of Ofcom in November 2005. Philip Graf joined the Liverpool Daily Post and Echo in 1983, which became Trinity International Holdings in 1985. He subsequently became Chief Executive in 1993. He became 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 Chairman of the Press Standards Board of Finance and of the Broadband Stakeholder Group. He is currently a partner with Praesta Partners LLP and a non-executive director of Archant Limited. He is Chairman of the Content Board and is a Member of the Remuneration and Audit Committees.

Ian Hargreaves (age 55)

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

- Stephanie Liston joined the Board as a Non-Executive Member on 1 September 2005
- Richard Hooper CBE was Non-Executive Deputy Chairman of Ofcom and Chairman of the Content Board until his retirement on 31 December 2005
- Philip Graf joined the Board as Non-Executive Deputy Chairman of Ofcom and Chairman of the Content Board on 1 January 2006
- Sean Williams joined the Board as an Executive Member on 1 January 2006

Sara Nathan (age 50)

Sara Nathan is a Non-Executive Member of Ofcom. She is also 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, Financial Services Authority and a Member of ICSTIS, the premium rate regulator. Sara Nathan is a member of the Audit Committee.

Ed Richards (age 40)

Ed Richards is the Chief Operating Officer for Ofcom and the Senior Partner, Strategy and Market Developments. He was previously Senior Policy Advisor to the Prime Minister for media, telecoms, internet and e-government. He has been Controller of Corporate Strategy at the BBC and worked in consulting at London Economics Ltd. He is a Non-Executive Board Member of the Donmar Warehouse Theatre.

Sean Williams (age 43)

Sean Williams is an Executive Member of Ofcom and Competition Partner, responsible for the development and enforcement of Ofcom's economic regulation and competition policies in communications markets. He is also a Non-Executive Director of Williams Lea Holdings PLC. Previously he was a partner of LEK Consulting, a strategy consulting firm, from 1997 to 2003, where he advised on competition and business strategy issues, and a special advisor in the Prime Minister's Policy Unit from 1995 to 1997.

Corporate Governance

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

The Combined Code does not apply to Ofcom as Ofcom is an independent statutory corporation. However, its principles provide a useful benchmark for all bodies wishing to make a statement about their corporate governance performance. Ofcom has complied with the main principles of the Combined Code during the period 1 April 2005 until 31 March 2006; it has adopted the principles of the Code where it was either capable of doing so, or it was appropriate to do so, given its status as an independent statutory corporation.

Board Members' remuneration

Details of Members' remuneration are set out on pages 116 to 122.

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. In this capacity the Departments have effectively carried out the role of a Nominations Committee for the Non-Executive Members of Ofcom. 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 94 and 95.

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

For the purposes of compliance with the Combined Code:

- the Board considers all of the Non-Executive Members to be independent of management and free of any business or other relationship which could materially interfere with the exercise of their judgement;
- the Board believes that the Members have, between them, a wide range of experience which ensures an effective Board to lead and control Ofcom;
- the Non-Executive Members comprise a majority of the Board. 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 2006.

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.

As a statutory corporation, the principles and provisions of the Combined Code in respect of relations with shareholders are not directly applicable; however, Ofcom's Annual Report is sent to the Department of Trade and Industry 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 (Chairman)
- Rona Chester
- Robin Foster (resigned 31/07/05)
- Graham Howell
- Peter Ingram
- Sandra Jenner (resigned 31/01/06)
- Kip Meek
- Dominic Morris CBE
- Peter Phillips (appointed 13/03/06)
- Ed Richards
- Philip Rutnam
- Tony Stoller CBE (retired 31/01/06)
- Tim Suter
- Sean Williams

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 10 to 13. The Content Board meets monthly and held 12 meetings during the year. The Members of the Content Board during the year were:

- Richard Hooper CBE (Chairman, resigned 31/12/05)
- Philip Graf CBE (Chairman, appointed 01/01/06)
- Sara Nathan (Deputy Chairman)
- Sue Balsom
- Floella Benjamin OBE
- Kevin Carey
- Jonathan Edwards CBE (resigned 28/02/06)
- Pam Giddy
- Rosemary Kelly (resigned 28/02/06)
- Matthew MacIver
- Kip Meek
- Adam Singer
- Tim Suter
- Kath Worrall

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. Kip Meek and Tim Suter are the only Executive Members of the Content Board.

The Audit Committee

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

- Anne Bulford (Chairman, resigned 30/06/05)
- Peter Teague (Chairman, appointed 18/10/05)
- David Currie
- Richard Hooper CBE (resigned 31/12/05)
- Philip Graf CBE (appointed 1/1/06)
- Sara Nathan

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, Chief Operating Officer 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.

The main duties of the Audit Committee are to:

- review and direct the internal audit function and the appointment of the internal auditors;
- review the nature and scope of the external audit and the findings of the external auditors;
- to monitor and review, on behalf of the Board, the effectiveness of the systems of internal control and risk management;
- to monitor and review, on behalf of the Board, the integrity, quality and reliability of the financial statements, Annual Plan and Accounts;
- to continually review the scope and results of both internal and external audits; and
- to 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. However, as Peter was appointed during the year, he was actually paid £2,276 for the period.

The Remuneration Committee

The Remuneration Committee consists of three Non-Executive Members of the Ofcom Board. The members of the Remuneration Committee during the year were:

- Millie Banerjee CBE (Chairman)
- David Currie
- Richard Hooper CBE (resigned 31/12/05)
- Philip Graf CBE (appointed 01/01/06)

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

Board Committees

Executive Members of the Board and Members of the Executive Committee. The Committee also advises Ofcom on the terms and conditions of the Non-Executive 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 seven 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 (excluding the Chairman whose remuneration is decided upon by his employers, the City Business School, details of which are provided in the Remuneration Report) is determined by the Secretaries of State and is set out in detail in note 4 to the Remuneration Report. Should it be necessary for Ofcom to consider any aspect of Non-Executive Member remuneration a Non-Executive Member Remuneration Committee has been established consisting of the Chairman, Stephen A. Carter and other executive colleagues, which will meet and report directly to the Secretaries of State. Consequently, no Board Member is involved in the setting of his or her own remuneration.

The Remuneration Report on pages 116 to 122 sets out Ofcom's application of the relevant principles of the Combined Code.

Fairness and Privacy Committee and Content Sanctions Committee

Both these committees are made up of members of the Content Board. On occasions, the Content Sanctions Committee has the addition of members of the Ofcom Board.

Both Committees have a permanent Chair who, during the period, was Sara Nathan for the Fairness and Privacy Committee and Richard Hooper CBE and then Philip Graf CBE for the Content Sanctions Committee.

The Committees meet as and when required and details of their activities can be found on pages 85 and 86.

Radio Licensing Committee

Ian Hargreaves, Non-Executive Member of the Ofcom Board, chairs this committee. Its membership consists of two permanent Non-Executive Members of the Content Board (Matthew MacIver and Pam Giddy) and four Ofcom colleagues. It meets monthly and details of its activities can be found on page 53.

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 (Chairman)
- Ruth Evans (Deputy Chairman)
- Azeem Azhar
- Fiona Ballantyne
- Nainish Bapna (resigned 30/6/05)
- Roger Darlington
- Simon Gibson OBE
- Graham Mather
- Kevin McLaughlin
- Jeremy Mitchell (appointed 2/2/06)
- Kate O'Rourke
- Bob Twitchin
- Allan Williams (appointed 2/2/06)

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: tracker research, consumer-focused regulation, digital switchover and the Strategic Review of Telecommunications.

The Consumer Panel made representations to Ofcom during the year on the following subjects:

- Consumer interest toolkit;
- Ofcom's Annual Plan;
- Ofcom's Consumer Policy Review;
- Digital switchover;
- Ofcom's Strategic Review of Telecommunications;
- BT Group plc Undertakings;
- Publication of BT financial reports;
- Impact assessment;
- Local Loop Unbundling;
- Next Generation Networks;
- Ofcom's duty to encourage availability of easily usable apparatus;
- Number Translation Services;
- Public body use of revenue sharing services;
- Mis-selling of fixed-line telecoms services;
- Wholesale Broadband Access;
- Alternative Dispute Resolution schemes; and
- Universal Service Obligations.

The Consumer Panel published its 2005/6 Annual Report on its activities on 8 June 2006. 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 (Chairman)
- Bob Barron (appointed 25/7/05, resigned 12/9/05)
- Professor Martin Cave
- Dr David Cleevely
- Professor Leela Damodaran
- Professor Barry Evans
- Debbie Gillatt (appointed 12/9/05)
- Mike Hibberd (resigned 1/2/06)
- Stephen Lowe
- Phillipa Marks
- Professor Mike Short
- Andrew Sleigh
- Stephen Speed (resigned 24/7/05)
- 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:

- the role of Ofcom in promoting innovation, particularly in the wireless sector;
- the content and direction of Ofcom's research and development work;
- digital divide issues and the role that spectrum might play in addressing them;
- a detailed and wide-ranging assessment of Ofcom's trading and liberalisation proposals and the difficulties and improvements that might be made in implementing them; and
- the type of metrics that might be useful in measuring the impact of Ofcom's spectrum initiatives.

In addition, OSAB provided substantial input and advice into the Cave Audit of Government spectrum holdings which was completed during the year.

OSAB's Annual Report, covering its activities during its second year, was published on 8 May 2006 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 (Chairman)
- Lydia Thomas (Deputy Chairman)
- Professor Janet Askham
- Rt Hon Lord Carter
- Simon Cramp
- Gareth Davies
- Caroline Ellis
- Baroness Greengross OBE
- Fred Heddell
- Jonathan Kaye
- Suneel Shivdasani (appointed 1/1/06)
- Ross Trotter
- John Welsman (appointed 1/1/06)

Non-Board Committees

Throughout the period, the Committee has advised Ofcom on proposed Ofcom policy as it may impact older and disabled people:

- the review of the Universal Service Obligation in telecoms;
- the implications of the development of Voice over IP (VoIP) services;
- Television Access Services – particularly audio description, signing and subtitling, and especially the preparations for digital switchover;
- digital switchover and its impact on older and disabled consumers; and
- Ofcom's research function to ensure that a comprehensive body of evidence is developed on the communications interests of older and disabled people.

The Committee has joined the Government and Digital UK's Consumer Expert Group, which advises on accessible digital equipment and how to ensure older and disabled people receive appropriate and timely advice and support during the switchover process.

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 finalisation of the review of public service broadcasting, in particular the importance of quality and localness in regional programming and the value of regional news and current affairs;
- the developing 'digital divide' between the UK's main urban and rural areas relating principally to access to digital television, affordable broadband access and mobile phone reception;
- the future of the Universal Service Obligations (particularly public call boxes), the availability of mobile phone services, number portability and service bundling;
- the impact of digital switchover on each Nation and the English regions;
- the television production sector review;
- the proposals to improve media literacy;
- the review of number translation services; and
- implications for the Nations and Regions of Ofcom's review of radio.

The membership of each Committee is as follows:

English Regions
- Suzy Brain England (Chairman)
- Gita Conn OBE JP
- Sue Farrington
- John Hooper CBE
- Derek Inman
- Don Jayasuriya
- Azam Mamujee (appointed 1/9/05)
- Jessica Mann
- Andrew Norton
- Anne Scorer (appointed 1/9/05)
- Alan Wright

Northern Ireland
- Professor R. Wallace Ewart OBE (Chairman)
- Sinead Boyle
- Carol Burrows
- Brian Collins
- Mags Connolly
- Dr David Elliott
- Michael McKernan
- Jane Morrice
- Una Murphy
- Dr Leslie Orr
- Professor Gerard Parr
- Glyn Roberts

Scotland
- Joyce Taylor (Chairman)
- James Hunter
- Fiona McLeod (resigned 20/03/06)
- Andrew Muir
- Susan Neal
- Thomas Prag
- Selma Rahman
- Julie Ramage
- Martin Robertson
- Professor Philip Schlesinger

Wales
- Evan Jones (Chairman, resigned 31/03/06)
- Nick Bennett
- Ian Clarke
- Michael Clarke
- Professor Tony Davies (Chairman, with effect 01/04/06)
- Dr Kevin Fitzpatrick
- Julie James
- Christine Hall (resigned 31/3/06)
- Elizabeth Williams

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 and Parliamentary Accountability

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

The following lists the Parliamentary and public appearances of the Ofcom Chairman, Chairman of the Content Board and Ofcom Chief Executive during the period under review. The lists below are not a complete summary of all Parliamentary and public appearances.

David Currie

Briefings to Parliament April 2005 – March 2006

April 2005

House of Lords BBC Charter Review Select Committee

December 2005

House of Lords BBC Charter Review Select Committee

Various meetings with Parliamentarians

Key public speeches April 2005 – March 2006

April 2005

The Development Group lunch

Wincott Foundation lunch

May 2005

Newspaper Society annual lunch

September 2005

DTI i2010 Conference

CRI Lecture

DCMS Audiovisual Conference – chairing

October 2005

Chatham House/IIC Conference on Communications

Communications Network annual dinner

Richard Hooper CBE

Key public speeches April 2005 – March 2006

April 2005

- ECTA Conference – chairing
- Telecommunications Executive Network – chairing

June 2005

- IEA Future of Broadcasting conference

August 2005

- Hong Kong Broadcasting Authority Seminar

October 2005

- IIC International Regulators Forum – chairing

November 2005

- Canberra Conference
- Impact of TWF at ISPA

Stephen A Carter

Briefings to Parliament April 2005 – March 2006

April 2005

- House of Lords BBC Charter Review Select Committee

December 2005

- House of Commons Culture, Media and Sport Select Committee hearing into Analogue Switch-off

Various meetings with Parliamentarians

Key public speeches April 2005– March 2006

April 2005

- RTS Dinner

May 2005

- FT Mobile Communications Conference

June 2005

- OECD Convergence Seminar

July 2005

- *Guardian* Media Lecture, Radio Academy Festival
- Westminster Media Forum Telecoms Seminar

September 2005

- GMG Radio Board lunch

November 2005

- *Economist* European Telecoms Conference
- Next Generation Regulation: Delivering Competition Communications Conference
- VLV Autumn Conference
- IRG/ERG Plenary

December 2005

- ECTA Annual Regulation Conference

January 2006

- RTS dinner

February 2006

- CMA Conference

March 2006

- Smith Barney/Citigroup Conference

Impact Assessments Undertaken
1 April 2005 – 31 March 2006

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 2005/6:

- 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 2005/6 in which the earlier consultation included an impact assessment

- Protecting citizens and consumers from mis-selling of fixed-line telecommunications services: Notification of Modification to a General Condition – Introduction of mandatory Codes of Practice for sales and marketing in fixed-line telecoms services
- Final decision review of the broadcasting transmission services market
- The final strategy on the management and administration of the new Community Radio Fund
- The Wireless Telegraphy (Licence Charges) Regulations 2005
- The Ofcom Broadcasting Code
- Statement on Planning Options for Digital Switchover
- PSB review – Phase 3 – Competition for quality Statement on Programming for the Nations and Regions
- Review of ITV Networking Arrangements
- Ofcom's decision to exempt the use of automotive short-range equipment in the 24 GHz band from Wireless Telegraphy licensing : Statement
- Implementation of geographic number conservation measures – A statement issued by the Office of Communications
- An assessment of alternative solutions for UK number portability – Policy statement
- Spectrum Framework Review Statement
- Notification of approval of an emergency code amendment to the ICSTIS Code of Practice
- Valuing BT's copper access network
- Ofcom's approach to risk in the assessment of the cost of capital
- Explanatory Statement on BT's SMP status and charge controls in narrowband wholesale markets
- Per-provider and per-customer line costs and charges for Carrier Pre-selection
- Charges between Communications Providers: Number Translation Services Retail Uplift charge control and Premium Rate Services bad debt surcharge
- A statement on proposals for applying RSA to Radio Astronomy
- Ofcom's decision to exempt the use of radio frequency identification equipment in the 865-868 MHz band from Wireless Telegraphy licensing
- Award of available spectrum: 1781.7-1785 MHz paired with 1876.7-1880 MHz
- Local loop unbundling: setting the fully unbundled rental charge ceiling and minor amendment to SMP conditions FA6 and FB6
- Ships' Radio Licensing
- Statement and notification extending the charge controls
- Radio – Licensing Policy for VHF Band III, Sub-band 3
- Wholesale Line Rental: Reviewing and setting charge ceilings for WLR services
- Amateur radio licensing
- Statement on the making of regulations in connection with the award of 1781.7-1785 MHz paired with 1876.7-1880 MHz
- Radio – Preparing for the Future (Phase 2)
- Statement of policy on the persistent misuse of an electronic communications network or electronic communications service
- National Single Non-Emergency Number Designating number "101"
- Review of the Universal Service Obligation
- Wholesale Mobile Voice Call Termination charge controls – request for consent
- Number portability and technology neutrality: Modification to the Number Portability General Condition and the National Telephone Numbering Plan

Ofcom consultations published in 2005/6, which included an impact assessment and where no statement has yet been published

- Notice of Ofcom's proposal to make regulations to inspect and restrict the use of certain Wireless Telegraphy licence-exempt apparatus
- Regulation of business retail markets
- Number Translation Services: A way forward
- Providing citizens and consumers with improved information about Number Translation Services and Premium Rate Services
- Award of available spectrum: 412-414 MHz paired with 422-424 MHz
- Pay TV channels on multiplexes B, C and D
- Proposed guidance as to how Ofcom may interpret the meaning of "fair, reasonable and non-discriminatory" and other regulatory conditions when assessing charges and terms offered by regulated providers of Technical Platform Services
- Conditions regulating Premium Rate Services
- Review of the Ofcom Metering and Billing Approval Scheme
- Review of the cross-promotion rules
- Award of Available Spectrum – 1785-1805 MHz
- Product Placement – A consultation on issues related to product placement
- The Future Licensing of DAB digital radio
- Television production sector: a review
- Channel Sponsorship – A consultation on the sponsorship of television channels and radio stations
- Migrations, switching and mis-selling
- Regulation of VoIP Services
- Telephone Numbering: Safeguarding the future of numbers
- Retail Price Controls: Explanatory Statement and Proposals
- Television access services review
- Television advertising of food and drink products to children – Options for new restrictions
- Mobile Call Termination Market Review
- Award of available spectrum: 1452-1492 MHz

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 2006 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.

Ofcom has therefore developed appropriate processes for the systematic identification, evaluation and control of risk and has further enhanced these in 2005/6.

The risk and control framework

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 2006/7, all projects have been assigned a risk ranking to help prioritise Ofcom's forthcoming work. Papers to the Board or other Ofcom committees highlight risks associated with specific projects so that such risks can be taken into consideration when decisions are made. All project managers are required to identify risks attached to their projects and to put in place measures to manage such identified risks.

The Directorate of Planning and Development (DPD), reporting to the Chief Operating Officer, 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.

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
  - exception-based reporting of other high and medium level risk status projects across the organisation, litigation risks, financial and other operational risks.
- an annual risk review undertaken with external consultancy input to analyse the adequacy of the risk identification and monitoring process, based on the Government's Risk Management Assessment Framework;
- a review at each meeting of the Audit Committee of Ofcom's operational and policy risks, in particular litigation risks and security. The Committee annually reviews Ofcom's financial statements and committee members regularly receive Ofcom's monthly management information pack;
- an annual review and discussion of internal controls by the Board with the Chairman of the Audit Committee;
- 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;
- setting up a project management system for policy projects incorporating a risk management recording facility to provide a common basis for capturing risk and recording risk management;

Statement on Internal Control

- the establishment of project management governance arrangements which require project managers to identify, report on and manage project-level risks;
- development of a risk management policy document to provide guidance to Ofcom colleagues on Ofcom's approach, the role of colleagues and the wider risk management context within Ofcom;
- enhancement of capacity to handle risk by training policy project managers and directors in the use of a new project management system to record, on a monthly basis, overall risk status on projects and actions taken to mitigate risks;
- appropriate risk awareness and management within project teams has also been enhanced by the continuing focus of management review boards on what could prevent delivery of planned outputs or achievement of policy outcomes;
- development 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;
- 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; and
- the operation of a security policy dealing with all aspects of security including personal, document and IT.

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 work of the internal auditors and the executive managers within Ofcom who have responsibility for the development and maintenance of the internal control framework 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, which was outsourced to KPMG in November 2003, 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.

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 meet certain expenditure thresholds, the Executive Committee and the Board.

Ofcom's major IS renewal programme started in 2005/6, is subject to review at a number of levels, including an independent assurance check provided by an external consultant with regards 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 now 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.

Stephen A Carter

Chief Executive

27 June 2006

Remuneration Report

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

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

Constitution of the Remuneration Committee

The constitution of the Remuneration Committee is set out on page 99.

Advisers

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

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

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

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

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

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

General policy

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

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

Components of remuneration

The main components of the Executive Members' remuneration are:

Salary and flexible benefits

The basic salary for each Executive Member or senior manager is determined by taking into account each colleague's responsibilities, performance and experience together with market trends. In addition, a flexible benefits allowance is made available to each Executive Member or senior manager (with the exception of Philip Rutnam as set out below).

Benefits in kind

Each Executive Member or senior manager receives certain standard benefits which are detailed later in this section (with the exception of Philip Rutnam as set out below).

Annual bonus

Each Executive Member or senior manager participates in a bonus scheme which is calculated as a percentage of salary based on the individual's performance up to a maximum of 20-25 per cent of salary depending upon the individual concerned. No element of bonus is pensionable.

Pension arrangements

Executive management

Each Executive Member or senior manager (with the exception of Tony Stoller CBE who retired on 31 January 2006 and Philip Rutnam 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.

Tony Stoller CBE participated in the Ofcom Defined Benefit Pension Plan on comparable terms as applied when previously Chief Executive of the Radio Authority until his retirement from Ofcom on 31 January 2006. This provided salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of final salary per year of service, subject to the Inland Revenue Earnings Cap where appropriate. Tony Stoller CBE received additional benefits through the Plan in recognition of his earnings in excess of the cap. No benefit is provided through unapproved arrangements.

Philip Rutnam is not employed directly by Ofcom; he is on secondment from HM Treasury. Ofcom reimburses on an annual basis to HM Treasury the remuneration paid to Philip Rutnam by HM Treasury which includes the charge levied by HM Treasury for his participation in the Principal Civil Service Pension Scheme (of which Philip Rutnam is a member) on behalf of Philip Rutnam.

Non-Executive Members

The pension costs of David Currie are met by Ofcom as set out in the notes below. As Chair of the Radio Authority, Richard Hooper CBE was provided with a pension by analogy to the ITC Staff Pension Plan (now the Ofcom (former ITC) Pension Plan) until his retirement from Ofcom on 31 December 2005. This provided salary-related benefits on a defined benefit basis with an accrual rate of 1/60th of final salary for each year of service subject to the Inland Revenue earnings cap where appropriate. The other Non-Executive Members do not receive a pension benefit from Ofcom.

Details of remuneration for the Board, the Content Board and the Executive Committee are set out on pages 118 to 119. The numbered points against the names of individuals refer to the numbered points set out on pages 119 to 121.

Guidance to the remuneration schedules

These schedules refer to remuneration during the financial year. The schedule reflects remuneration for that part of the year during which individuals were either providing services to, or employed by, Ofcom. The numbered points against the names of individuals refer to the numbered points set on pages 119 to 121.

Remuneration Report

Ofcom Board Remuneration 2005/6

Name	Role		Total remuneration	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Salary
			£	£	£	£	£	£
Millie Banerjee CBE	Non-Executive Member	(3-4)	45,719			513		45,206
Stephen Carter	Chief Executive	(7-10)	440,667	71,250	19,818	7,599	57,000	285,000
David Currie	Chairman	(1-4)	193,737	27,724		987		165,026
Philip Graf CBE	Deputy Chairman	(3-4)	25,129					25,129
Ian Hargreaves	Non-Executive Member	(3-4)	45,586			380		45,206
Richard Hooper CBE	Deputy Chairman	(3-4 & 12)	60,869			560		60,309
Stephanie Liston	Non-Executive Member	(3-4)	23,454					23,454
Kip Meek	Chief Policy Partner	(7-10)	338,579	44,500	19,782	6,697	45,100	222,500
Sara Nathan	Non-Executive Member	(3-4)	56,937			537		56,400
Ed Richards	Chief Operating Officer	(7-10)	308,930	33,725	19,953	6,752	35,500	213,000
Sean Williams	Partner, Competition	(7-10)	251,186	25,050	20,723	5,013	33,400	167,000
Total			1,790,793	202,249	80,276	29,038	171,000	1,308,230

Ofcom Content Board Remuneration 2005/6

Name	Role		Total remuneration	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Salary
			£	£	£	£	£	£
Sue Balsom	Content Board Member	(3-4)	20,616			56		20,560
Floella Benjamin	Content Board Member	(3-4)	20,951			391		20,560
Kevin Carey	Content Board Member	(3-4)	20,691			131		20,560
Jonathan Edwards	Content Board Member	(3-4)	19,200			353		18,847
Pam Giddy	Content Board Member	(3-4)	20,970			410		20,560
Rosemary Kelly	Content Board Member	(3-4)	18,847					18,847
Matthew MacIver	Content Board Member	(3-4)	20,911			351		20,560
Adam Singer	Content Board Member	(3-4)	21,119			559		20,560
Kath Worrall	Content Board Member	(3-4)	20,885			325		20,560
Tim Suter	Partner, Content & Standards	(7-10)	243,387	24,225	21,435	3,927	32,300	161,500
Total			427,577	24,225	21,435	6,503	32,300	343,114

Ofcom Executive Committee Remuneration 2005/6

Name	Role		Total remuneration	Pension entitlement/ allowance	Flexible benefits allowance	Standard benefits	Bonus	Salary
			£	£	£	£	£	£
Rona Chester	Finance Director	(7-10)	177,639	17,625	15,000	4,014	23,500	117,500
Robin Foster	Partner, Strategy and Market Developments	(7-11)	88,487	11,667	6,993	1,910		67,917
Graham Howell	Secretary to the Corporation	(7-10)	182,668	19,500	15,000	5,168	13,000	130,000
Peter Ingram	Chief Technology Officer	(7-10)	238,540	30,000	25,000	5,540	28,000	150,000
Sandra Jenner	HR Director	(7-11)	210,191	22,067	17,031	3,476	29,700	137,917
Dominic Morris CBE	Director of the CEO's Office	(7-11 & 14)	221,692	25,766	18,329	3,927	26,500	147,170
Peter Phillips	Partner, Strategy and Market Developments	(7-11)	12,764	1,514	1,154			10,096
Philip Rutnam	Partner, Competition and Strategic Resources	(6)	210,811	36,777			29,200	144,834
Tony Stoller CBE	External Relations Director	(7-10 & 13)	182,595	21,472	14,811	3,562	13,000	129,750
Total			1,525,387	186,388	113,318	27,597	162,900	1,035,184

Notes to the remuneration tables

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

2. The Chairman is a member of the Universities Superannuation Scheme ('the scheme'); Ofcom contributes (by way of reimbursement to the City University) on an annual basis four-fifths of the contributions made by the City University to the scheme for the Chairman.

   During the financial year an additional £26,793 was reimbursed to City University in respect of an undercharge of pension contributions for the years 2002/3 and 2003/4.

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

Remuneration Report

Members of the Ofcom Board or Content Board Members took up the entitlement during the period under review.

4. The fees for all the Non-Executive Members (with the exception of the Chairman) are fixed in agreement with the DTI and DCMS for the duration of their appointment. The fees for the Content Board are fixed by the Ofcom Board. The fees shown represent a full year for the Non-Executive Members of the Ofcom Board and the Content Board Members, with the exception of Stephanie Liston and Philip Graf, who joined the Ofcom Board, respectively, on 1 September 2005 and 1 January 2006 and Richard Hooper CBE who retired from the Ofcom Board on 31 December 2005.

   With the exception of the Chairman and the Deputy 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 and Sara Nathan) was £40,206 per annum each with effect from 1 April 2005. Sara Nathan's basic fee was increased with effect from 1 April 2005 to £51,400 per annum to reflect her extra time commitment to Ofcom as a result of her Content Board duties. These fee levels, together with the fee levels for the Deputy Chairman and 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 (with the exception of the Chairman) and the members of the Content Board were given increases of 2.0 per cent from 1 April 2006. An additional fee of £5,000 per annum is paid to any Non-Executive Member (with the exception of the Chairman) who chairs a Board Committee.

5. Jonathan Edwards and Rosemary Kelly resigned from the Content Board on 28 February 2006.

6. Philip Rutnam is on secondment to Ofcom from HM Treasury and his remuneration costs represent the amount reimbursed by Ofcom for his services during the period under review.

7. 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 (with the exception of Philip Rutnam) and a percentage pension provision (with the exception of Tony Stoller CBE).

   Sean Williams joined the Ofcom Board as an Executive Member as of 1 January 2006. The table shows his salary for a full year as he was employed by Ofcom during the whole period.

   Ed Richards attended the Advanced Management Programme at Harvard for 10 weeks during the year. Consequently his bonus was pro-rated to reflect the period he was actually working at Ofcom.

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

9. Each Ofcom Executive Member of the Ofcom Board or senior manager (with the exception of Philip Rutnam) receives certain standard benefits which include base-level life assurance, private medical insurance and the provision of a digital package.

10. All Ofcom colleagues participate in a bonus scheme, payment of which is based on individual performance. All payments are approved by the Ofcom Remuneration Committee and are calculated as a percentage of base salary ranging from 0-25 per cent.

11. Robin Foster resigned from Ofcom on 31 July 2005. Sandra Jenner resigned from Ofcom on 31 January 2006. Peter Phillips joined Ofcom on 13 March 2006. Dominic Morris joined the Executive Committee with effect from 1 April 2005.

12. Richard Hooper CBE retired on 31 December 2005. He is entitled to pensions benefits provided by analogy to the ITC Staff Pension Plan (now the Ofcom (former ITC) Pension Plan). A separate disclosure in relation to this plan has been made in the table below.

13. Tony Stoller CBE retired on 31 January 2006. He 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.

14. Dominic Morris CBE was appointed to the Executive Committee on 1 April 2005. He is a member of the Defined Benefit Pension Plan. A separate disclosure 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 Richard Hooper CBE, Tony Stoller CBE and Dominic Morris CBE are shown in the table below.

Both Richard Hooper CBE and Tony Stoller CBE retired during the accounting period. The figures shown in the table as at 31 March 2006 are calculated at their respective dates of 31 December 2005 and 31 January 2006. Dominic Morris CBE was appointed to the Executive Committee during the accounting period. The figures shown in the table relate to the whole of the accounting period.

The accrued pensions and transfer values for Tony Stoller CBE and Dominic Morris CBE reflect the additional pension arising from a transfer-in of his benefits from his previous employer. Prior to his retirement, Tony Stoller CBE elected to transfer the benefits he had built up during his previous employment into the Ofcom Defined Benefit Pension Plan. As a consequence, these benefits were linked to his Ofcom remuneration. The transfer value shown in the table as at 31 March 2005 has been restated to reflect this decision.

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 Chief Executive has a notice period of up to 12 months; the other Executive Members of the Ofcom Board and members of senior management have notice periods not exceeding nine months. The Remuneration Committee has considered the notice period and termination arrangements in the light of the Combined Code and believes them to be appropriate.

The Non-Executive Members are all on fixed-term appointments for a set time commitment to Ofcom of up to two days per week (with the exception of David Currie, Philip Graf and Sara Nathan who currently commit up to four, three and two and a half days per week respectively).

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.

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

Remuneration Report

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 CBE

Chairman of the Remuneration Committee

27 June 2006

Disclosures for Defined Benefit pensions

Name	Accrued pension at 31 March 2006	Increase in accrued pension over year	Transfer value of accrued pension at 31 March 2006	Transfer value of accrued pension at 31 March 2005	Increase in transfer value less member's contributions
	£	£	£	£	£
Richard Hooper CBE (3-4 & 12)	7,700	1,200	139,000	102,000	33,000
Tony Stoller CBE (13)	47,500	4,000	1,028,000	720,000	300,000
Dominic Morris CBE (14)	17,500	3,500	223,000	167,000	45,000

Accounts for the Period April 2005 – March 2006

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 2006 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 and the tables of emoluments and entitlements and related Notes in the Remuneration Report. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Board, the Chief Executive and Auditor

The Board and Chief Executive are responsible for the preparation of the Annual Report, 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 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 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 112 to 115 reflects the Office of Communication's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accountable Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Office of Communication's 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. This other information comprises only the Introduction, Core Areas of Activity, Operating and Financial Review, Performance and Evaluation, the Statement of Accounts (excluding the Statement on Internal Control) and the unaudited part of the Remuneration Report. 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 Communication's circumstances, consistently applied and adequately disclosed.

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

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 Communication's affairs at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the period 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
- In all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

3 July 2006

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Income and Expenditure Account
for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Income	2,3	**156,020**	145,405
Operating expenditure			
Staff costs	4	**(49,841)**	(53,900)
Other operating costs	6	**(74,565)**	(69,022)
Operating surplus		**31,614**	22,483
Exceptional (charge)/credit			
Future costs of vacant properties	7	**(14)**	3,682
Dividends receivable	8	**-**	683
Interest receivable		**2,067**	1,053
Interest payable	9	**(1,044)**	(1,842)
Other finance income		**210**	-
Other finance costs	19,26	**(442)**	(785)
Notional cost of capital credit	22	**1,076**	1,117
Surplus on ordinary activities before taxation		**33,467**	26,391
Taxation on interest receivable		**211**	(228)
Surplus on ordinary activities after taxation		**33,678**	26,163
Reversal of notional cost of capital credit	**22**	**(1,076)**	(1,117)
Surplus for financial year		**32,602**	25,046

The accounting policies and notes on pages 132 to 153 form part of these financial statements.

Statement of Total Recognised Gains and Losses
for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Surplus for year		**32,602**	25,046
Unrealised surplus on revaluation of freehold land and buildings	20	**-**	959
Ofcom Defined Benefit Pension Plans			
Actual return less expected return on plan assets	26b	**13,660**	3,390
Experience (losses)/gains on pension scheme liabilities	26b,c	**(4,789)**	6,430
Changes in assumptions underlying the present value of pension scheme liabilities	26b,c	**(18,570)**	-
Total recognised gains for year		**22,903**	35,825

The accounting policies and notes on pages 132 to 153 form part of these financial statements.

Balance Sheet
as at 31 March 2006

	Notes	2006 £'000	Restated 2005 £'000
Fixed assets			
Intangible assets	10a	**1,288**	1,257
Tangible assets	10b	**25,898**	28,891
		27,186	30,148
Current assets			
Debtors	11	**12,958**	12,947
Cash at bank and in hand	12	**53,782**	34,781
		66,740	47,728
Creditors – amounts falling due within one year	14	**(67,848)**	(59,184)
Net current liabilities		**(1,108)**	(11,456)
Total assets less current liabilities		**26,078**	18,692
Creditors – amounts falling due after more than one year	15	**(7,885)**	(18,612)
Provisions for liabilities and charges	19	**(13,037)**	(18,354)
Net liabilities excluding pension asset and liability		**5,156**	(18,274)
Pension asset	13	**10,200**	10,600
Pension liability	13	**(921)**	(794)
Net liabilities including pension asset and liability	20	**14,435**	(8,468)
Reserves			
Income and expenditure account	20	**14,435**	(9,559)
Revaluation reserve	20	**-**	1,091
		14,435	(8,468)

The accounting policies and notes on pages 132 to 153 form part of these financial statements.

These financial statements were approved by the Board on 20 June 2006.

David Currie — **Chairman**

Stephen A Carter — **Chief Executive**

Cash Flow Statement
for the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000
Net cash inflow from operating activities	21	**40,001**	25,993
Dividends received from joint ventures and associates	8	**-**	683
Taxation			
UK corporation tax paid		**-**	(101)
Returns on investment and servicing of finance			
Interest received		**2,067**	1,053
Interest paid	9	**(1,044)**	(1,842)
Net cash outflow for returns on investment and servicing of finance		**1,023**	(789)
Capital expenditure and financial investment			
Payments to acquire fixed assets		**(7,705)**	(4,828)
Proceeds from the disposal of fixed assets		**3,492**	88
Net cash outflow for capital expenditure and financial investment		**(4,213)**	(4,740)
Net cash inflow before financing		**36,811**	21,046
Financing			
Loans repaid	16	**(17,810)**	(17.810)
Net cash outflow from financing		**(17,810)**	(17,810)
Increase in net cash in the year		**19,001**	3,236
Reconciliation of net cash flow to movements in net funds			
Increase in cash in the year		**19,001**	3,236
Decrease in debt in the year	16	**17,810**	17,810
Opening net funds/(debt)		**6,599**	(14,447)
Closing net funds		**43,410**	6,599

The accounting policies and notes on pages 132 to 153 form part of these financial statements.

Notes to the Accounts
for the year ended 31 March 2006

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) Going concern

The Board, having carefully considered Ofcom's 2006/7 budget and funding needs for 12 months from the signature date of these financial statements, are confident that sufficient funding will be available to meet Ofcom's liabilities as they fall due.

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

c) Income recognition

Spectrum management income

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

Spectrum Efficiency Scheme income

This income comprises grant-in-aid from the DTI to meet the costs of spectrum efficiency projects. 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 auctions

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 £25,000 a year and Radio licence fees in excess of £5,000 a year are payable in monthly instalments. Television licence fees of less than £25,000 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.

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.

Grant-in-aid and other income

Grant-in-aid is accounted for in the period in which it is received. Amounts of grant-in-aid paid over in advance are included in creditors as payment on account at the balance sheet date.

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

d) Receipts collected by Ofcom 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 accounts in respect of Section 400-related transactions except where payments and fees have been collected and are in an Ofcom 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.

e) Leases

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

f) Onerous property leases

Where properties become surplus to requirements, professional advice is taken on marketing these properties and provision is made for the estimated future liabilities on these leases at current prices, and discounted using the Treasury discount rate of 2.2 per cent (2005: 3.5 per cent). Future rental income is only included in this calculation to the extent that it is reasonably certain.

g) 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.

h) Settlement of claims

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

i) Fixed assets

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 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. For capitalised computer software, the estimated useful life is three years.

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

Notes to the Accounts
for the year ended 31 March 2006

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

j) Research and development

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

k) 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 is 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.

l) 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.

m) Financial instruments and credit risk

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

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

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

n) 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 surplus property and commercial activities.

o) 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 (2005 – 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.

p) Segmental analysis

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

2. Sectoral analysis

The analysis below refers to income by sector for the year ended 31 March 2006, together with attributable costs.

	Spectrum management £'000	Spectrum efficiency scheme £'000	Spectrum auctions £'000	Networks & services £'000	Broadcasting £'000	Other activities £'000	Total £'000
Revenue							
Licence and administration fees	-	-	-	25,163	34,233	-	59,396
Application fees	-	-	-	30	1,376	-	1,406
Grant-in-aid	81,292	7,083	1,285	-	-	3,679	93,339
Other income	-	-	-	-	-	2,605	2,605
Accrued/(Deferred) income	(189)	(408)	(168)	5,018	(4,771)	(596)	(1,114)
Total revenue	81,103	6,675	1,117	30,211	30,838	5,688	155,632
Rental and other income	220	-	-	63	88	17	388
Operating income	81,323	6,675	1,117	30,274	30,926	5,705	156,020
Interest receivable	1,172	-	-	341	469	85	2,067
Total income	82,495	6,675	1,117	30,615	31,395	5,790	158,087
Loan repayments	(12,624)	-	-	(2,305)	(2,881)	-	(17,810)
Interest payable	(398)	-	-	(287)	(359)	-	(1,044)
Net operating income	69,473	6,675	1,117	28,023	28,155	5,790	139,233
Accrued rental income	(136)	-	-	(39)	(54)	(10)	(239)
Cash income	69,337	6,675	1,117	27,984	28,101	5,780	138,994
Operating costs	(69,337)	(6,675)	(1,117)	(27,984)	(28,101)	(5,780)	(138,994)
Total costs	(69,337)	(6,675)	(1,117)	(27,984)	(28,101)	(5,780)	(138,994)
Surplus on cash cost basis	-	-	-	-	-	-	-
Deferred/(Accrued) income	**189**	**408**	**168**	**(5,018)**	**4,771**	**596**	**1,114**

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

- 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 at Note 1c) to these accounts, grant-in-aid is accounted for in the period in which it is received.

2. Sectoral analysis (continued)

The table on the previous page is prepared on a cash cost basis and thus excludes non-cash charges (primarily depreciation, charges to the Income and Expenditure account for rent-free periods, non-cash movements on provisions and the current year utilisation of the vacant property provision) less capital expenditure.

Ofcom set licence and administrative fees for 2005/6, in accordance with the Statement of Charging Principles published 8 February 2005. Fees are based on an estimate of its revenue and capital cash costs for 2005/6. Deferred revenue, in the table above, represents a £1.1m surplus of income over Ofcom's actual revenue and capital costs for 2005/6. This surplus will be rebated to Ofcom's stakeholders and therefore is deferred on the balance sheet at 31 March 2006.

Surpluses of £0.2m, £0.4m and £0.2m are included within the DTI grant-in-aid creditor and classified within Creditors: amounts falling due within one year. These amounts will be set off against spectrum management, spectrum efficiency scheme, and programme of spectrum auction grant-in-aid claims respectively in 2005/6.

An estimate of the broadcasting surpluses was made in March 2006 and is classified within Creditors: amounts falling due within one year in these financial statements. This estimated surplus of £3.5m is being passed back to the broadcasting stakeholders as a reduction in the 2006/7 licence and administrative fees. The difference between the March 2006 estimate for the purpose of the tariff calculation of surplus income, and the actual outturn, totals £1.2m, and will be adjusted for in setting the 2007/8 tariffs and within these financial statements has been classified within Creditors: amounts falling due after more than one year. With respect to the Network and Services sector, an estimate of a £4.1m deficit was made in March 2006 and is classified within Debtors, with the amount being recovered from the relevant stakeholders in increased administrative charges in 2006/7. The difference between the March 2006 estimate and the actual outturn, an additional £0.9m deficit, is classified within Debtors and will be recovered from stakeholders.

Reconciliation of sectoral analysis to surplus after taxation

	Notes	2006 £'000
Surplus on ordinary activities after taxation		**33,678**
Adjustments in respect of pension asset and liability		**(8,958)**
Vacant property costs	7,19	**(4,855)**
Other finance costs	19,26	**442**
Other finance income		**(210)**
Cost of capital credit		**(1,076)**
Net adjustments		**(1,211)**
		17,810
DTI loan repayable		**(17,810)**
Surplus on cash cost basis after loan repayments		**-**

Reconciliation from cash operating costs to operating budget out-turn

	2006 £'000
Cash operating costs	**138,994**
Spectrum efficiency costs	**(6,675)**
Programme of spectrum auctions	**(1,117)**
Other income	**(2,216)**
Operating budget outturn	**128,986**

Notes to the Accounts
for the year ended 31 March 2006

3. Income

	2006 £'000	2005 £'000
Grant-in-aid – DTI – Spectrum management	81,103	81,676
Grant-in-aid – DTI – Spectrum efficiency scheme	6,675	3,129
Grant-in-aid – DTI – Programme of spectrum auctions	1,117	-
Grant-in-aid – DTI – Competition law enforcement	3,063	4,177
Grant-in-aid – DCMS – Media literacy	559	559
Total government grant-in-aid	**92,517**	89,541
Networks & services administrative fees	30,181	21,722
Networks & services application fees	30	62
Networks & services amounts received in relation to legacy organisation	-	1,679
Broadcasting Act licence fees	29,995	28,278
Broadcasting Act application fees	843	856
Rental income	354	353
Other income	2,100	2,914
Income	**156,020**	145,405

4. Staff costs

	2006 £'000	2005 £'000
Staff costs, including fees paid to Board Members, were:		
Salaries & benefits	41,034	39,703
National Insurance costs	4,858	4,553
Pension costs	2,840	4,362
Restructuring costs	1,109	5,282
Total staff costs	**49,841**	53,900

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 116 to 122.

Restructuring costs of £1.1m (2005: 5.3m) have been incurred in streamlining the organisation's operations and technology functions to meet the requirements of all the sectors regulated by Ofcom.

5. Employee numbers

	2006	2005
The average number of employees was	**762**	768

As at 31 March 2006, Ofcom had 776 employees (2005: 753).

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

Colleagues seconded to Ofcom are excluded from the above figures.

6. Other operating costs

	2006 £'000	2005 £'000
Auditors remuneration – statutory audit fees	**90**	100
Professional fees	**11,299**	7,350
Outsourced services	**4,405**	5,258
Audience and consumer research	**4,765**	4,386
Technological research and spectrum efficiency projects	**8,686**	3,410
Seconded staff	**589**	3,423
Temporary staff and recruitment	**3,087**	2,670
Travel and subsistence	**1,710**	1,645
Information and technology costs	**14,283**	14,961
Administration and office expenses	**10,175**	9,658
Premises costs	**8,494**	8,785
Loss on disposal of fixed assets	**17**	205
Amortisation	**859**	-
Depreciation	**6,106**	7,171
Total other operating costs	**74,565**	69,022
The costs, above, include:		
Operating leases – land and buildings	**4,228**	4,583
Operating leases – other	**94**	699

Total other operating costs include £6.7m for spectrum efficiency projects (2005: £3.1m) and £1.1m of expenditure for the programme of spectrum auctions (2005: £nil).

7. Exceptional (charge)/credit

	2006 £'000	2005 £'000
Future costs of vacant properties	(14)	3,682

The vacant property (charge)/credit are in respect of five (2005: 12) leasehold properties not used by Ofcom at 31 March 2006. The charge in 2005/6 represents the net adjustment to future liabilities arising as a result of the sub-letting of vacant property during the financial year under review and a reduction in the discount rate from 3.5 per cent to 2.2 per cent. The charge has no effect on cash flows in the year under review.

8. Dividends receivable

	2006 £'000	2005 £'000
Dividends receivable	-	683

In September 2004, Ofcom transferred its shareholding in RSI as part of the consideration for the renegotiation of the IS services agreement between Ofcom and LogicaCMG. No further dividends are due to be received.

9. Interest payable

	2006 £'000	2005 £'000
On DTI loan	1,044	1,842

10. Fixed assets

(a) Intangible

	'Restated' Computer software £'000	Total £'000
COST		
At 1 April 2005	2,330	2,330
Additions during year	920	920
Disposals	(208)	(208)
Cost at 31 March 2006	**3,042**	**3,042**
AMORTISATION		
At 1 April 2005	1,073	1,073
Charge for the year	859	859
Disposals	(178)	(178)
Accumulated amortisation at 31 March 2006	**1,754**	**1,754**
NBV 31 March 2006	**1,288**	**1,288**
NBV 31 March 2005 ('Restated')	**1,257**	**1,257**

Information systems assets were reviewed during the year and where separately identifiable intangible assets relating to application software and related licences were reclassified to better reflect the nature of these assets. As a result, assets originally classified as information systems are now restated as computer software under intangible assets (note 10a) and computer hardware under tangible assets (note 10b).

Notes to the Accounts
for the year ended 31 March 2006

10. Fixed assets (continued)

(b) Tangible

	Land & buildings £'000	Fixtures & fittings £'000	Office & field equipment £'000	'Restated' Computer hardware £'000	Motor vehicles £'000	Assets under construction £'000	Total £'000
COST							
At 1 April 2005	3,749	14,686	13,737	2,256	1,540	-	35,968
Additions during year	457	147	245	1,148	-	4,595	6,592
Disposals	(2,964)	-	(1,039)	(54)	(72)	-	(4,129)
Cost at 31 March 2006	**1,242**	**14,833**	**12,943**	**3,350**	**1,468**	**4,595**	**38,431**
DEPRECIATION							
At 1 April 2005	135	2,369	3,393	666	514	-	7,077
Charge for the year	132	2,164	2,675	760	375	-	6,106
Disposals	(96)	-	(472)	(30)	(52)	-	(650)
Accumulated depreciation at 31 March 2006	**171**	**4,533**	**5,596**	**1,396**	**837**	**-**	**12,533**
NBV 31 March 2006	**1,071**	**10,300**	**7,347**	**1,954**	**631**	**4,595**	**25,898**
NBV 31 March 2005 ('Restated')	**3,614**	**12,317**	**10,344**	**1,590**	**1,026**	**-**	**28,891**

The freehold land and buildings at Whyteleafe were sold for £3.0m on 31 March 2006. Office and field equipment held at Whyteleafe were disposed of during the year for £0.4m. Computer hardware assets shown above have been restated. Please refer to note 10a.

11. Debtors

	2006 £'000	2005 £'000
Trade debtors	**4,401**	6,736
Other debtors	**78**	282
Prepayments	**2,898**	4,560
Staff loans and advances	**249**	225
Accrued income	**5,332**	837
VAT	**-**	307
	12,958	12,947

Included within accrued income above is £1.2m (2005: £0.1m) of debtors recoverable after more than one year.

12. Cash at bank and in hand

	2006 £'000	2005 £'000
Cash at bank and in hand	**53,382**	34,781
Spectrum Auction deposits	**400**	-
	53,782	34,781

On the 21 March 2006, Ofcom received £0.4m from companies taking part in an auction of 12 WT Act licences for a total of 6.6 MHz of spectrum. These funds were held by Ofcom in a separate bank account in respect of 16 deposits of £25,000 each received from the respective bidders. Except in certain circumstances specified in the relevant Regulations, these deposits were refundable if licences were not granted to the bidders.

The single-round sealed bid auction took place on 20 April 2006, and the licences awarded were effective immediately on Ofcom's receipt of the balances payable on their bids by the successful companies. Twelve licences were awarded. The deposits of the four unsuccessful bidders were repaid in May 2006.

13. Pension asset and liability

	2006 £'000	2005 £'000
Defined benefit pension plans' surplus	**10,200**	10,600
Unfunded pensions liability	**921**	794

Further detail in respect of Ofcom pension schemes can be found at Note 26 to these accounts.

14. Creditors – amounts falling due within one year

	2006 £'000	2005 £'000
Amounts due to Consolidated Fund	**3,721**	3,428
Trade creditors	**5,218**	3,708
Corporation tax payable	**-**	211
Other tax and social security	**1,433**	1,865
Other creditors	**792**	507
Spectrum Auction deposits held	**400**	-
VAT	**22**	-
DTI grant-in-aid	**28,428**	10,116
Loan funding from DTI	**5,186**	17,810
Accruals	**14,033**	13,139
Deferred income	**8,615**	8,400
	67,848	59,184

Amounts due to Consolidated Fund comprise £3.7m (2005: £3.3m) of WT Act licence fees received and £nil (2005: £0.1m) of amounts owed to the Consolidated Fund by Oftel. Other creditors includes £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 2006.

Notes to the Accounts
for the year ended 31 March 2006

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

	2006 £'000	2005 £'000
Loan funding from DTI	**5,186**	10,372
Rent free creditor	**1,421**	4,235
Deferred income	**1,278**	4,005
	7,885	18,612

16. Analysis of DTI loan movement

	2006 £'000	2005 £'000
At 1 April 2005	**28,182**	45,992
Repaid in year	**(17,810)**	(17,810)
At 31 March 2006	**10,372**	28,182

17. Schedule of loans

	First repayment	Last repayment	Original loan £'000	Repaid to date £'000	Loan outstanding at 31 March 2006 £'000	Interest rate
31 March 2003	March 2004	March 2006	4,304	4,304	-	3.7%
8 April 2003	March 2004	March 2006	500	500	-	4.1%
22 April 2003	March 2004	March 2006	2,548	2,548	-	4.0%
17 June 2003	March 2004	March 2006	2,439	2,439	-	3.6%
11 July 2003	March 2004	March 2006	2,206	2,206	-	3.7%
15 August 2003	March 2004	March 2006	2,481	2,481	-	4.4%
22 August 2003	March 2004	March 2006	1,000	1,000	-	4.4%
17 September 2003	March 2004	March 2006	3,372	3,372	-	4.3%
23 September 2003	March 2004	March 2006	2,000	2,000	-	4.4%
15 October 2003	March 2004	March 2006	5,607	5,607	-	4.6%
14 November 2003	March 2004	March 2006	5,102	5,102	-	4.7%
15 December 2003	September 2004	March 2008	11,920	5,960	5,960	4.6%
2 January 2004	September 2004	March 2008	8,825	4,413	4,412	4.5%
			52,304	**41,932**	**10,372**	

The weighted average interest rate at 31 March 2006 is 4.5 per cent (2005: 4.4 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.

18. Maturity of the DTI loan

	2006 £'000	2005 £'000
Less than one year	**5,186**	17,810
One to two years	**5,186**	5,186
Two to five years	**-**	5,186
	10,372	28,182

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

19. Provisions for liabilities and charges

	Early retirement £'000	Vacant property £'000	Other provisions £'000	Total £'000
At 1 April 2005	2,848	15,236	270	18,354
Restatement of discount factor[1]	(341)	407		66
Discount unwound in year	55	344	-	399
Utilised in year	(821)	(4,869)	(125)	(5,815)
Provision increased/(released)	70	(393)	356	33
At 31 March 2006	**1,811**	**10,725**	**501**	**13,037**

[1]Pension provisions have been calculated in accordance with actuarial advice. Provisions have been 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 (2005: 3.5 per cent per annum). The restatement of discount factor above reflects the change in the discount rate on 1 April 2005.

The provision for early retirement £1.8m (2005: £2.8m) 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 properties with leases which terminate between 2006 and 2020. This is in respect of properties previously occupied by legacy organisations, but now surplus to requirements. Professional advice has been taken in marketing vacant property and future income streams are recognised as and when sub-letting of properties is reasonably certain. The provision is the net present value (NPV) of the expected cash outflows arising as a result of lease commitments transferred to Ofcom, net of the discounted value of future income streams secured from committed and reasonably certain future sub-letting agreements.

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 £0.4m for future redundancy costs expected to be paid in 2006/7.

20. Reserves

	Income & expenditure account £'000	Revaluation £'000	Total £'000
At 1 April 2005	(9,559)	1,091	(8,468)
Disposal of revalued assets	1,091	(1,091)	-
Actuarial losses on defined benefit pension plans	(9,699)	-	(9,699)
Surplus for financial year	32,602	-	32,602
At 31 March 2006	**14,435**	**-**	**14,435**

	2006 £'000	2005 £'000
Income & expenditure reserve excluding pension asset and liability	**5,156**	(19,365)
Pension reserve	**9,279**	9,806
	14,435	(9,559)

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

	2006 **£'000**	2005 £'000
Operating surplus	**31,614**	22,483
Amortisation	**859**	-
Depreciation	**6,106**	7,171
Loss on disposal of fixed assets	**17**	205
Taxation	**211**	-
(Increase) in debtors	**(11)**	(1,230)
Increase in creditors	**16,107**	4,605
(Decrease) in provisions	**(5,730)**	(6,434)
(Increase) in pension assets and liabilities	**(9,172)**	(807)
Net cash inflow from operating activities	**40,001**	25,993

22. 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 (2005: 3.5 per cent) per annum in accordance with HM Treasury guidance.

23. Commitments under operating leases

	Land & buildings £'000	**Other £'000**	**Total £'000**
Annual commitments under operating leases expiring:			
within one year	150	17	167
between two and five years	2,794	28	2,822
after five years	6,651	-	6,651
Total	**9,595**	**45**	**9,640**

24. 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 and an operating profit after taxation of £0.1m. At 31 March 2006, the total receivable by Ofcom from subsidiary undertakings was £0.1m and due for repayment in June 2006. 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.

25. 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 £8.5m (2005: £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.

26. 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 £2.0m were made in the year ended 31 March 2006 (2005: £2.0m). At 31 March 2006, accruals of £0.2m (2005: £0.2m) were held in respect of unpaid employer contributions to the stakeholder pension plan.

b) Closed pension plans

Ofcom also operates two closed defined benefit pension plans:

- the Ofcom Defined Benefit Pension Plan which was established on 29 December 2003. A full actuarial valuation was carried out as at 29 December 2003 by a qualified independent actuary. The employer contribution made to the Ofcom Defined Benefit Pension Plan for the year ending 31 March 2006 was £7.8m (2005: £2.2m). This included a special contribution of £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 2006 (2005: £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 and updated to 31 March 2006 by a qualified independent actuary. The employer contribution made to the Ofcom (former ITC) Pension Plan for the year ending 31 March 2006 was £1.8m (payable in monthly instalments) (2005: £1.0m).

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.

Assumptions

The major assumptions used by the independent actuary for accounting purposes only are:

	2006 %	2005 %
Discount rate	**5.0**	5.5
Rate of increase in salaries	**4.5**	4.3
Rate of increase in payment of pre-97 excess over GMP pensions	**3.0**	2.8
Rate of increase in payment of post-97 excess over GMP pensions	**3.0**	2.8
Inflation assumption	**3.0**	2.8

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 2006 %	Value at 31 March 2006 £'000	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 £'000
Corporate bonds	5.0	5,700	5.5	1,800
Index-linked bonds	4.0	153,200	4.5	126,500
Equities	7.5	37,600	7.8	39,200
Property	N/A	-	N/A	-
Cash	4.5	1,600	4.5	900
Total market value of assets		198,100		168,400
Present value of plan liability		(187,900)		(157,800)
Net pension asset		10,200		10,600

Analysis of the amount charged to operating surplus	2006 £'000	2005 £'000
Current service cost	2,420	3,000
Curtailment and settlement	(1,100)	-
Total operating charge	1,320	3,000

Analysis of the amount credited to other finance income	2006 £'000	2005 £'000
Expected return on pension plans' assets	8,760	8,390
Interest on pension liabilities	(8,550)	(8,400)
Net return	210	(10)

26. Pensions (continued)

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)	2006	2005
	£'000	£'000
Actual return less expected return on plans' assets	13,660	3,390
Experience (losses)/gains arising on the plans' liabilities	(4,740)	6,430
Changes in assumptions underlying the present value of pension scheme liabilities	(18,500)	-
Actuarial (loss)/gain recognised in STRGL	(9,580)	9,820

Movement in surplus during the year	2006 £'000	2005 £'000
Surplus in plans at 1 April	10,600	20
Total current service cost	(2,420)	(3,000)
Employer's contributions (including those unpaid at measurement date)	10,290	3,770
Curtailment and settlement gain	1,100	-
Other finance income	210	(10)
Actuarial (loss)/gain	(9,580)	9,820
Surplus in plans at 31 March	10,200	10,600

History of experience gains and losses	2006	2005
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	13,660	3,390
Percentage of schemes assets	6.9%	2.0%
Experience (losses)/gains on schemes liabilities:		
Amount (£'000)	(4,740)	6,430
Percentage of the present value of the schemes liabilities	(2.5%)	4.1%
Total amount recognised in statement of total recognised (losses)/gains:		
Amount (£'000)	(9,580)	9,820
Percentage of the present value of the schemes liabilities	(5.1%)	6.2%

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 2006. The same bases and assumptions as noted above in respect of the defined benefit schemes.

Analysis of the amount charged to operating surplus/(deficit)	**2006** **£'000**
Current service cost	12
Total operating charge	**12**

Analysis of the amount debited to other finance costs	**2006** **£'000**
Interest on pension liabilities	(43)
Net return	**(43)**

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)	**2006** **£'000**
Experience losses arising on the plans' liabilities	(49)
Changes in assumptions underlying the present value of pension scheme liabilities	(70)
Actuarial loss recognised in STRGL	**(119)**

Movement in deficit during the year	**2006** **£'000**
Deficit in plans at 1 April	794
Total current service cost	12
Employer's contributions (including those unpaid at measurement date)	(50)
Employee contributions	3
Other finance costs	43
Actuarial loss	119
Deficit in plans at 31 March	**921**

Notes to the Accounts
for the year ended 31 March 2006

27. Related parties

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

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

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

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

In addition, Richard Hooper, who was an Ofcom Board Member until 31 December 2005 – Chairman of the Radio Authority until July 2003.

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

Details of the loan funding from the DTI are provided at Notes 16 to 18 of these financial statements. Details of all grant-in-aid income from DTI and DCMS are provided at Note 3 and Note 14 respectively of these financial statements.

At 31 March 2006, the following creditors were held in respect of grant-in-aid provided by the DTI:

- spectrum management – £24.0m (2005: £9.6m);
- Spectrum Efficiency Scheme – £2.2m (2005: £0.5m);
- Programme of spectrum auctions – £1.1m (2005: £nil); and
- competition law enforcement – £1.1m (2005: £0.1m).

Ofcom made payments of £0.4m (2005 £2.9m) to DTI in respect of the full employment costs of colleagues seconded by the DTI to Ofcom in the year.

28. Financial instruments

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

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

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

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

29. Capital commitments

At 31 March 2006 there were capital commitments of £1.6m (2005: £1.0m).

30. Receipts transferred to the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £115.8m (2005: £265.3m) of Broadcasting Act Additional Payments and fines to the Consolidated Fund and Treasuries. During the year Ofcom received a refund of £52.9m from the Consolidated Fund to enable it to make refunds to licensees following revisions of their licence terms.

£165.5m (2005: £140.4m) 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 2006 are disclosed at Note 14 to these financial statements.

31. 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 (2005: £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 2006, Ofcom's contingent liability was £2.5m (2005: £2.9m).

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 19) 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.

32. Whole of government accounts

At 31 March 2006, £42.5m (2005: £41.7m) was owed by Ofcom to central government bodies. There are no balances with local authorities, NHS Trusts or public corporations and trading funds.

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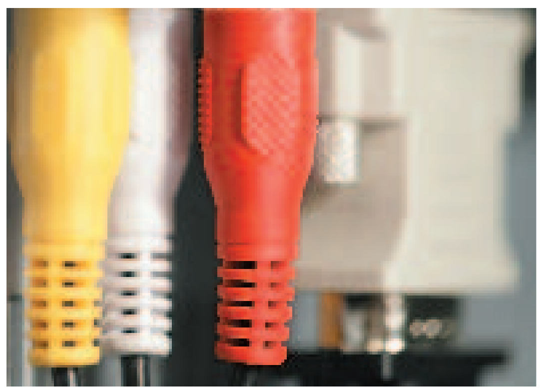
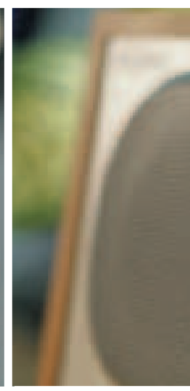

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